McKinsey Global Institute

Executive summary

India's turning point

An economic agenda to spur growth and jobs

August 2020

McKinsey Global Institute

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Preface

This report was written as India, along with countries everywhere, was grappling with the human tragedy and economic crisis brought on by the COVID-19 pandemic. The duration and intensity of the crisis will mark economic policy in the short to medium term, as we and others have described in a range of publications. This report goes much further. It looks at the longer-term trends that will affect India's economy over the next decade and beyond, and focuses on what we consider to be India's critical challenge: restoring strong GDP growth in order to create sufficient gainful jobs for the tens of millions of people who will join the labour force between now and 2030. If India is able to move back to a fast-growth track, it will ensure greater broad-based prosperity for its people and secure its place in the ranks of emerging economies that have outperformed their peers in recent decades. Failure to restore high growth, however, risks a decade of economic stagnation and rising joblessness.

This report is the latest in a long history of research by the McKinsey Global Institute into India's economy, reflecting our strong commitment to the country and its growing role in the global economy. Recent publications include *Digital India: Technology to transform a connected nation* (March 2019) and *India's labour market: A new emphasis on gainful employment* (June 2017).

The research was directed by Shirish Sankhe, a McKinsey senior partner in Mumbai; Anu Madgavkar, an MGI partner in Mumbai; Gautam Kumra, a McKinsey senior partner in Delhi; Jonathan Woetzel, an MGI director in Shanghai; and Sven Smit, an MGI co-chairman based in Amsterdam. The team was led by Kanmani Chockalingam and comprised Rishi Arora, Anjali Bajaj, Jigya Bhagat, Abhishek Ghosh, Shishir Gupta, Arihant Jain, Priya Jindal, Chaitanya Kedari, Sunakshi Wadhwa, and Priyanka Yalamanchili.

We are grateful to our academic adviser for this report, Dr Rakesh Mohan, senior fellow at the Jackson Institute for Global Affairs, Yale University, and distinguished fellow at Brookings India, for his invaluable guidance and support. We were also fortunate to have received helpful input from leaders including Sajjid Chinoy, managing director and chief India economist, JP Morgan; K.V. Kamath, president, New Development Bank and former chairman, ICICI Bank; Amitabh Kant, CEO, NITI Aayog; Uday Kotak, managing director and chief executive officer, Kotak Mahindra Bank and president, Confederation of Indian Industry; Neelkanth Mishra, co-head of APAC strategy, Credit Suisse; Nandan Nilekani, co-founder and chairman of Infosys and founding chairman of the Unique Identification Authority of India; Arvind Panagariya, professor of economics at Columbia University and former vice-chairman of NITI Aayog; Ajit Ranade, president and chief economist, Aditya Birla Group; Sangita Reddy, joint managing director, Apollo Hospitals and president of The Federation of Indian Chambers of Commerce and Industry; Rathin Roy, director, National Institute of Public Finance and Policy; Manish Sabharwal, chairman, Teamlease Services; Jayant Sinha, Member of Parliament and Chairperson for Standing Committee on Finance; and Ravi Venkatesan, founder, Global Alliance for Mass Entrepreneurship and former chairman of Microsoft India. While we benefitted greatly from the variety of perspectives we gathered from these leaders, our views have been independently formed and articulated in this report.

Many McKinsey colleagues provided analysis and advice: Chirag Adatia, Ruchi Aggarwal, Alex Bolano, Brajesh Chibber, Mahima Chugh, Rajat Dhawan, Gourav Ganguly, Avinash Goyal, Rajat Gupta, Sarvesh Gupta, Karthikeyan K S, Noshir Kaka, Vikram Kapur, Jitesh Khanna, Amit Khera, Alok Kshirsagar, Abhijit Kulkarni, Khushboo Kumra, Akash Lal, Aleksander Marynski, Ketav Mehta, Mrinalini Mirchandani, Riti Mohapatra, Neelesh Mundra, Subbu Narayanswamy, Nitika Nathani, Sathya Prathipati, Jaidev Rajpal, Himanshu Satija, Ramdoss Seetharaman, Joydeep Sengupta, Suvojoy Sengupta, Jeongmin Seong, Suveer Sinha, Vishakha Sinha, Renny Thomas, Gandharv Vij, Varun Vijay, and Hanish Yadav.

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As with all MGI research, this work is independent, reflects our own views, and has not been commissioned by any business, government, or other institution. We welcome your comments on the research at MGI@mckinsey.com.

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In brief

India's turning point: An economic agenda to spur growth and jobs

India is at a decisive point in its journey towards prosperity, and it is time to make the next step change in the pace of reform. The economic crisis sparked by COVID-19 could spur actions that return the economy to a high-growth track and create gainful jobs for 90 million workers by 2030; letting go of this opportunity could risk a decade of economic stagnation. This report's key findings are:

A reform agenda can be implemented in the next 12 to 18 months to pave the way for economic growth in the coming decade. With the right measures now, India can raise productivity and incomes for workers, small, midsize, and large firms, keeping India in the ranks of the world's outperforming emerging economies.

With 90 million more workers in search of nonfarm jobs by 2030, India needs to act decisively to resume its high-growth path. Post COVID-19, annual GDP growth of 8.0 to 8.5 percent will be required with continued strong productivity growth and faster employment growth than in the past to create the 12 million gainful nonfarm jobs annually that are needed, up from just four million created each year between fiscal year 2013 to 2018. Even before the pandemic, India's economy faced structural challenges, and GDP growth fell to 4.2 percent; the crisis compounds the challenge. Absent urgent steps to spur growth, India risks a decade of stagnating incomes and quality of life.

In the high-growth path, the manufacturing and construction sectors can accelerate the most. Manufacturing could contribute one-fifth of incremental GDP to 2030, while construction could add one in four of the incremental nonfarm jobs required. Labour- and knowledge-intensive services sectors also need to maintain their past strong growth momentum.

Across all sectors, three growth booster themes spanning 43 frontier businesses have potential to create $2.5 trillion of economic value and 30 percent of India's nonfarm jobs in 2030. These themes provide productivity momentum throughout their sectors and higher-wage pathways for workers. They are: global hubs that serve India and the world such as in manufacturing and agricultural exports and digital services; efficiency engines to boost competitiveness, including next-generation financial products and high-efficiency logistics and power; and new ways of living and working, including the sharing economy and modern retail.

To capture frontier opportunities, India needs to triple its number of large firms, with more than 1,000 midsize and 10,000 small companies scaling up. India has about 600 large firms with more than $500 million in revenue. They are 11 times more productive than average and generate almost 40 percent of all exports. However, many more are needed: large firms' revenue contribution to GDP in 2018 was 48 percent, and India's potential is to achieve 70 percent by 2030, in line with outperformer economies. Addressing a "missing middle" of midsize firms can enable the emergence of 1,000 more large firms and 10,000 more midsize firms by 2030. Improving access to capital and easing other barriers to business would help the best-performing firms of all sizes climb the ladder of scale and global competitiveness.

Reforms in six areas can raise productivity and competitiveness; more than half could be implemented rapidly via policy or law. They are: (i) sector-specific policies to improve productivity in manufacturing, real estate, agriculture, healthcare, and retail; (ii) unlocking supply in land markets to reduce land costs by 20 to 25 percent; (iii) creating flexible labour markets for industry, with better benefits and safety nets for workers; (iv) enabling efficient power distribution to reduce commercial and industrial tariffs by 20 to 25 percent; (v) privatising 30 or so of the largest state-owned enterprises to potentially double their productivity; and (vi) improving the ease and reducing the cost of doing business.

Financial-sector reforms and streamlining fiscal resources can deliver $2.4 trillion in investment while boosting entrepreneurship by lowering the cost of capital for enterprises by about 3.5 percentage points. In the high-growth scenario, investment will need to rise to at least 37 percent of GDP from 33 percent pre-crisis, with a sharp uptick in private-sector investment. To finance this, some four percentage points of household savings could move to financial products, through measures to unshackle insurance, pension funds, and capital markets. Measures like a "bad bank" for nonperforming loans and reforms in directed bank lending could reduce capital costs. Some 3.6 percent of GDP may be channelled to productive infrastructure and other expenditure through measures to streamline government spending and government-owned assets, along with the tax buoyancy effects of higher growth itself.

While the central government's pro-growth agenda is critical, roughly 60 percent of the reforms can be led by the states, and all require active participation by the business sector. State governments could select frontier businesses and set up "demonstration clusters," for example, manufacturing export hubs, while pursuing other key reforms, including in agriculture, power, and housing. Businesses would need to commit to productivity growth, develop a long-term value creation mindset, and develop capabilities in innovation, digital and automation, M&A, partnerships, and corporate governance. With this, the coming decade for India could be one of high growth, gainful jobs, and broad-based prosperity.

India's high-growth imperative

High GDP growth with sustained productivity and jobs growth

Additional nonfarm jobs, 2020–30

90M

High productivity growth, 2023–30

6.5–7.0%

per year

High GDP growth, 2023–30

8.0–8.5%

per year

Three growth booster themes to drive productivity, employment, and economic value

Economic value of 43 frontier business opportunities, $ trillion, 2030

1. **Global hubs serving India and the world**
   - 1.0
   - Manufacturing exports, IT and digital, agricultural ecosystems, healthcare, tourism
2. **Efficiency engines for India's competitiveness**
   - 0.9
   - Financial services, automation, mining, power, logistics, e-governance
3. **New ways of living and working**
   - 0.6
   - Resilient cities, sharing economy, modern retail, climate change models, digital communications

ECONOMIC VALUE
$2.5T
NONFARM JOBS
30%

1,000+ new large, competitive firms, 11x more productive than all firms, on average

Potential for large firms (with revenues > $500M)
2018 vs 2030

Greater in number
# of large firms
600 → 1800 (3x)

Larger scale and scope
Revenue, % of GDP
48% → 70% (1.5x)

More profitable
Return on assets, %
1.2% → 1.9%

More competitive
% of top-quintile firms replaced over two decades
57% → 66%

Effective, time-bound reforms in product markets and factor markets and for financing growth

- Sector-specific pro-growth policies
- Unlocking supply in land markets
- Flexible labour markets
- Improving ease and reducing cost of doing business
- Privatisation and asset sales
- Efficient power distribution

- Channelling household savings to capital markets
- Reducing cost of credit intermediation
- Streamlining public finances to allocate capital more efficiently

More than

50% of reforms implemented rapidly by policies or laws

60% of reforms led by states

Businesses with high aspirations, focused on frontier business opportunities, and developing capabilities with a long-term mindset

Executive summary

The COVID-19 crisis is an urgent reminder that India is at a turning point: it needs to take decisive reform steps to get the economy back to a stronger growth track that creates millions of gainful jobs—or risk a decade of rising joblessness and economic stagnation. Even before the onset of the pandemic, India's growth had been slowing down due to structural issues; the COVID-19 crisis has put a chill on GDP globally as well as in India. But India cannot afford to wait to take action. Some 90 million workers will be looking for gainful nonfarm work opportunities between now and 2030, based on current demographics and possible transitions of workers out of agriculture. An additional 55 million women could enter the workforce by 2030 if their long-standing underrepresentation is at least partially corrected. Only a return to rapid and sustained GDP expansion of 8.0 to 8.5 percent annually that is fuelled by high productivity growth will enable the large-scale creation of gainful opportunities needed for these workers. Experience suggests that this is possible. India has delivered rapid economic growth, productivity increases, and poverty alleviation over much of the past quarter-century, and its innovative companies can help achieve high economic aspirations—if the right policies and incentives for growth are in place. Manufacturing and construction are the two sectors that would need to amplify the most, adding 9.6 and 8.5 percent annual GDP growth and 11 million and 24 million jobs respectively from 2023 to 2030.

The good news is that there is no dearth of opportunity. This report highlights opportunities available in the post-pandemic era and how India might be able to achieve them. It identifies three potential growth boosters, spanning 43 high-productivity frontier business opportunities (so called because they are at the frontier of productivity in their respective areas), that have the potential to generate $2.5 trillion of economic value and 30 percent of the nonfarm jobs in 2030. These opportunities could contribute about half the increase in GDP between fiscal year 2020 and 2030. The three growth boosters foresee an India with a stepped-up global role in both manufacturing and services, an efficient and competitive foundation for economic growth, and new ways of living and working that create value. India's firms would play a critical role in achieving these goals, including through more than 1,000 midsized, dynamic companies that could climb the ladder of scale to become large and more than 10,000 small companies that could become midsized. To enable these opportunities, the central and state governments would need to adopt a pro-growth reform agenda in product markets of critical sectors like manufacturing and construction, agriculture, retail, and others, and in factor markets like capital, labour, land, and power. Financial reforms will also be needed to ensure that sufficient capital is available; we estimate the total requirement at about $2.4 trillion in 2030, with small and midsize companies alone needing access to more than $800 billion. Achieving these goals will not be simple. Yet the alternative—a decade with just 5 percent annual growth, the lowest decadal growth since 1983—would simply be too costly for an economy that aspires to be ever stronger and more inclusive.[1]

43 frontier business opportunities have the potential to create $2.5 trillion in economic value in 2030.

[1] National Accounts Statistics, Ministry of Statistics and Programme Implementation.

A clarion call is sounding for India to put growth on a sustainably faster track and avoid a decade of potential stagnation

Over the decade to 2030, India needs to create at least 90 million new nonfarm jobs to absorb the 60 million new workers who will enter the workforce based on current demographics, and an additional 30 million workers who could move from farm work to more productive nonfarm sectors. To absorb this influx, the country will need about 12 million additional gainful nonfarm jobs every year starting in fiscal-year 2023—triple the four million nonfarm jobs created annually between 2012 and 2018.[2] If an additional 55 million women enter the labour force, at least partially correcting historical underrepresentation, India's job creation imperative would be even greater.

For this magnitude of employment growth to be gainful and productive, India's GDP will need to grow by 8.0 to 8.5 percent annually over the next decade, based on economic scenarios we have developed and benchmarks of how economic growth and employment have correlated in other emerging economies. The economy grew at just 4.2 percent in fiscal year 2020.[3] Moreover, at the time of writing, many forecasters expect it to sharply contract due to the COVID-19 pandemic, with high uncertainty about the range of possible economic outcomes for fiscal years 2021 and 2022.[4] Our analysis looks beyond the COVID-19 crisis, with scenarios beginning in fiscal year 2023, assuming India takes steps to transition out of the COVID-19 recession by then. Many of our proposed actions would start well before 2023, however, and in fact be implemented in the next 12 to 18 months.

Choosing a high-growth path that creates 90 million gainful jobs requires India to simultaneously increase its rate of employment growth sharply and maintain its historically strong productivity growth. To achieve 8.0 to 8.5 percent GDP growth, net employment would need to grow by 1.5 percent per year from 2023 to 2030, similar to the average net employment growth rate of 1.5 percent that India achieved from 2000 to 2012, but much higher than the flat net employment experienced from 2013 to 2018. At the same time, India will need to maintain productivity growth at 6.5 to 7.0 percent per year, the same as it achieved from 2013 to 2018.[5] The two objectives are not contradictory; indeed, employment cannot grow sustainably without high productivity growth, and vice versa.[6]

If India fails to put in place measures to address pre-pandemic trends of flat employment and slowing economic growth, and does not manage the shock of the crisis adequately, its economy could expand by just 5.5 to 6.0 percent from 2030, with a decadal growth of just 5 percent. The economy would absorb only about six million new workers into the workforce as compared to 60 million in the high-growth path, marking a decade of lost opportunity (Exhibit E1).

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2 National Sample Survey 2011–2012 (68th round); Periodic Labour Force Survey 2017–18; ILOSTAT.

3 National Accounts Statistics, Ministry of Statistics and Programme Implementation, 2020.

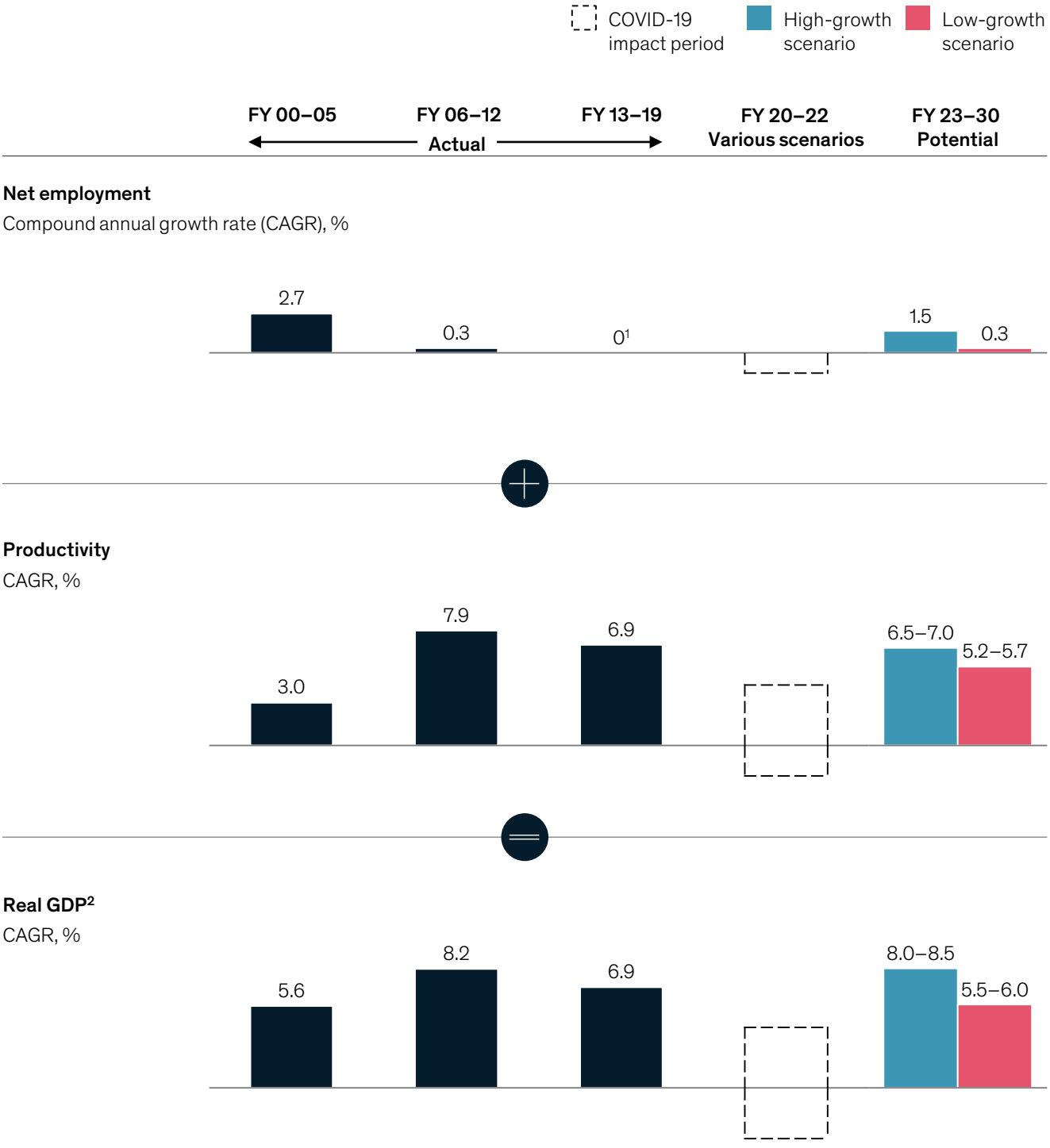
4 *Minus five – India's GDP growth outlook for fiscal 2021,* CRISIL, May 26, 2020; *Indian Economy: GDP Outlook,* ICRA, July 2020; *Survey of Professional Forecasters on Macroeconomic Indicators– Results of the 64th Round,* Reserve Bank of India, June 4, 2020; World Bank; Ritu Singh, "Coronavirus Impact: World Bank predicts 3.2% contraction for India in FY21," *CNBC TV18,* June 9, 2020; Aishwarya Paliwal, "India's GDP growth to remain between -6% to 1%: Financial commission chairman," *India Today,* May 22, 2020.

5 National Sample Survey 1999–2000 (55th round); National Sample Survey 2004–2005 (61st round); National Sample Survey 2011–2012 (68th round); Periodic Labour Force Survey 2017–18; ILOSTAT; National Accounts Statistics, Ministry of Statistics and Programme Implementation, 2020.

6 For details on how productivity growth and employment growth are interconnected, see David Hunt, James Manyika, and Jaana Remes, "Why US productivity can grow without killing jobs", *McKinsey Quarterly,* February 2011, and *Jobs lost, Jobs gained: Workforce transitions in a time of automation,* McKinsey Global Institute, December 2017. For details of productivity and employment performance of other outperformer emerging economies, see the technical appendix.

Exhibit E1

In the high-growth path, India's GDP could expand at 8.0 to 8.5 percent per year, with a sharp rise in employment and sustained productivity growth; the low-growth path implies negligible job creation.



[1] FY 19 data assumed to be 2018 data from Periodic Labour Force Survey 2017–18.
[2] Using real GDP at 2004–05 prices through FY 12 and 2011–12 prices from FY 13.
Note: High-growth scenario is in line with India's historical best GDP growth; in low-growth scenario, India records lowest decadal growth since 1983. Timelines were chosen based on availability of employment data.

Source: National Accounts Statistics, Ministry of Statistics and Programme Implementation; National Sample Survey 1999–2000 (55th round), 2004–2005 (61st round), 2011–2012 (68th round); Periodic Labour Force Survey 2017–18; ILOSTAT; McKinsey Global Institute analysis

Sustained reforms have delivered rapid growth, but India's economy was stalling even before COVID-19, and with the crisis, it risks a stagnant decade

Over the past three decades, India has outpaced many other global economies, propelling the country into the ranks of just 18 outperforming emerging economies that achieved robust and consistent high growth over that period.[7] Yet India's economy was already stalling and showing signs of structural weaknesses before the COVID-19 crisis.

India's real GDP growth has averaged 6.8 percent annually since 1992, with nominal per capita GDP rising 18-fold and real per capita GDP by a multiple of 3.6.[8] Growth has been inclusive, with economic prosperity translating into significant improvement in living standards. In just the decade between 2005–06 and 2015–16, about 270 million people were lifted out of extreme poverty.[9] More recently, the push to reduce multidimensional poverty by addressing basic needs holistically has also made progress: about 95 percent of households had access to electricity in 2018, up from 72 percent a decade earlier, while almost 100 percent of the population had access to basic sanitation as of July 2019. The share of Indian adults with at least one bank account has more than doubled since 2011, to 80 percent in 2017, driven by Jan-Dhan Yojana, a mass financial inclusion programme.[10]

India's track record of inclusive growth was the fruit of pro-growth reforms that lifted productivity and helped the country weather shocks and cycles (Exhibit E2). These reforms featured early pro-competition measures, including the 1991 dismantling of anachronistic licensing rules, sharp cuts in customs tariffs, and the privatisation and deregulation of telecommunications and electricity. Among other initiatives were measures to boost capital accumulation, including through liberalisation of foreign direct investment, issuance of new banking licenses to the private sector, and steep cuts in personal income tax. More recently, measures including the Aadhaar digital ID programme and the introduction of the Goods and Services Tax system marked attempts to formalise the economy.[11]

However, since the 2008 global financial crisis, India's growth trajectory has slowed and structural weaknesses have become apparent. Since 2013, the country's main demand engines—domestic private investment and global demand—have stalled. On the investment side, bank credit to industry slowed, and the proportion of nonperforming assets to total assets tripled to more than 9 percent in the period from fiscal year 2012 to 2019, driven by loans to the corporate sector, predominantly before 2010.[12] Due to mounting credit risk aversion, the cost of capital remained high despite falling inflation, and this held back investment. From a demand perspective, the trade intensity of global GDP declined, and India was unable to take advantage of shifts in global value chains. Exports declined as a share of India's GDP from 25 to 19 percent between 2013 and 2019.[13] Gross domestic savings and household savings growth slowed down, while labour force participation fell from 58 to 49 percent between 2005 and 2018; much of the decline was in female, rural labour force participation.[14] Core sectors, including manufacturing and construction, showed signs of stress. For example, average annual car production grew by about 4 percent from fiscal year 2013 to 2018, compared with 16 percent in 2004–12, while cement production growth averaged 4 percent, compared with more than 11 percent in the previous period.

7 For methodological details and a full list of the 18, which include China, Malaysia, Singapore, South Korea, Thailand, and Vietnam, see *Outperformers: High-growth emerging economies and the companies that propel them,* McKinsey Global Institute, September 2018.

8 World Bank.

9 Multidimensional Poverty Index 2018, UN Development Programme (UNDP).

10 Swachh Bharat Mission dashboard; Asli Demirgüç-Kunt et al., *The Global Findex Database 2017: Measuring financial inclusion and the fintech revolution,* World Bank, April 2018.

11 The Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016, *Gazette of India,* March 2016; Press Release, Central Board of Indirect Taxes and Customs, July 2, 2017.

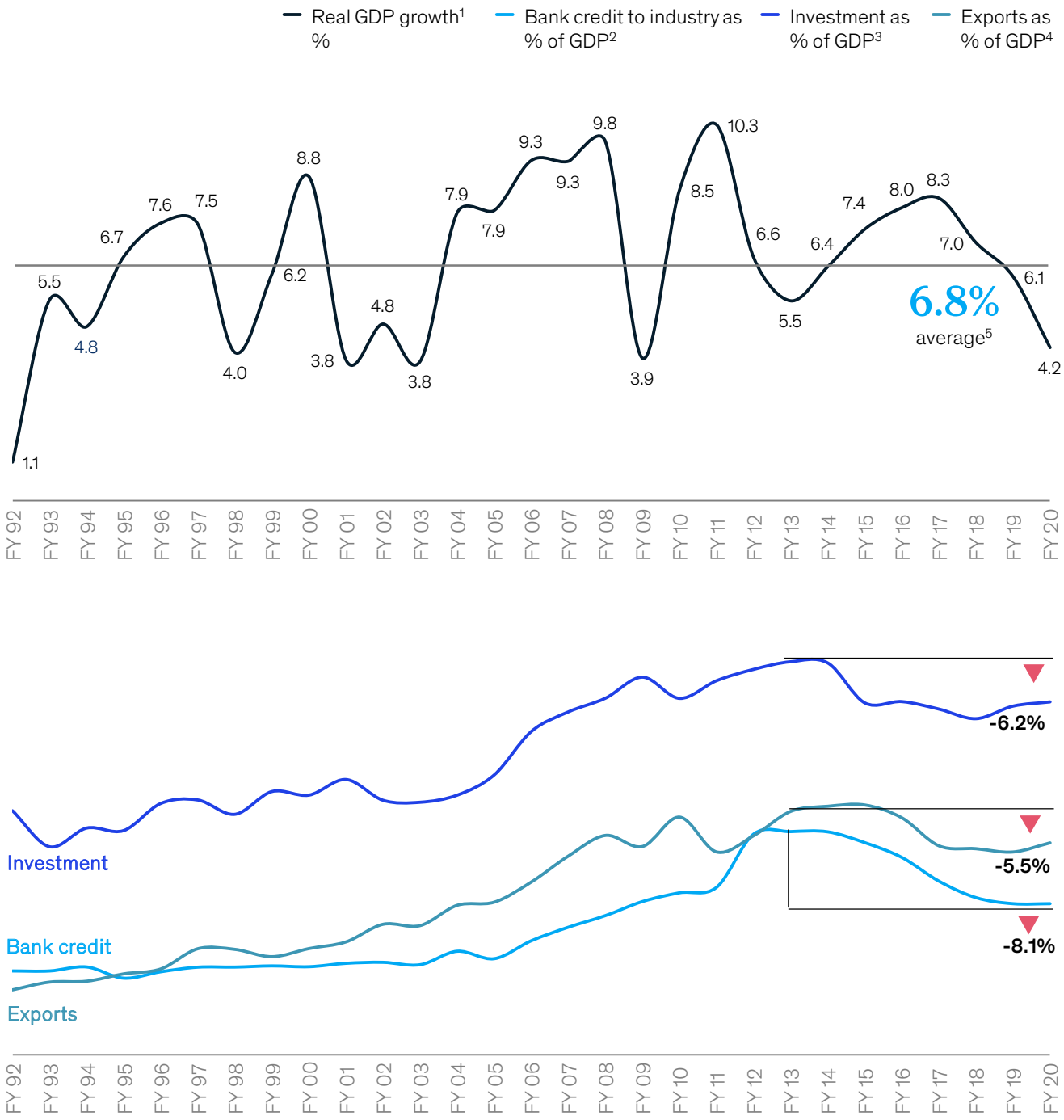
12 "Deployment of bank credit by major sectors", *Handbook of statistics on Indian economy,* Reserve Bank of India, May 2020; "Sectoral Deployment of Non-Food Gross Bank Credit – Outstanding," *Handbook of statistics on Indian economy,* Reserve Bank of India, March 2020; "The festering twin balance sheet problem", in *Economic survey 2016–17,* Ministry of Finance, January 2017; *Union budget 2017–18,* Ministry of Finance; "Trends in Non-performing assets – Bank Group-wise", *Report on trend and progress in banking in India,* Reserve Bank of India, November 2012 and December 2019.

13 National Accounts Statistics, Ministry of Statistics and Programme Implementation, 2020.

14 ILOSTAT.

Exhibit E2

India has achieved long-term growth of 6.8 percent per year, but structural weaknesses were exposed in the aftermath of the global financial crisis.



[1] Using real GDP at 2004–05 prices till FY 12 and 2011–12 prices from FY 13.
[2] Nominal metric; % of nominal GDP.
[3] Real metric; real gross capital formation as % of real GDP.
[4] Real metric; % of real GDP.
[5] Using real GDP at 2004–05 prices till FY 12 and 2011–12 prices from FY 13.

Source: National Accounts Statistics, Ministry of Statistics and Programme Implementation; Reserve Bank of India; McKinsey Global Institute analysis

In the labour market, overall employment was flat from fiscal year 2013 to 2018, according to data from the National Sample Survey Office. Some 22 million nonfarm jobs were created, while a similar number of workers left the agricultural workforce. Household savings have fallen as a consequence.[15]

The pandemic is a further shock that comes on top of India's structural slowdown, and it makes actions that can spur higher employment and productivity growth through the recovery all the more critical (see Box E1, "Assessing the impact of the COVID-19 crisis on India's economy").

Box E1

Assessing the impact of the COVID-19 crisis on India's economy

The COVID-19 pandemic has caused considerable suffering worldwide, in both lives and livelihoods. According to scenarios developed by McKinsey & Company and Oxford Economics, global GDP could contract by 3.5 to 8.1 percent in 2020. In India, the pandemic and the lockdowns implemented in an effort to contain it have reduced demand and could bring about the most severe decline in GDP in about four decades. At the time of writing, the McKinsey–Oxford Economics scenarios suggest that India's GDP could contract between 3 and 9 percent in the current year, depending on the effectiveness of virus containment and economic policy responses. Uncertainty remains high on both dimensions, and therefore on the depth and duration of the health and economic costs for India. The initial 10-week lockdown saw the economy operate at about half of full capacity, by our estimates, with significant strain on micro, small, and medium-size (MSMEs) businesses and large corporates. Our estimates suggest that the financial strain on households, MSMEs, and corporates, if unmitigated, would increase the level of nonperforming assets by seven to 14 percentage points in fiscal year 2021 (mitigatory steps taken by the Reserve Bank of India and the government could moderate the effect on nonperforming assets). Unemployment rose to an all-time high of over 20 percent in the first two months of the first quarter of fiscal year 2021, although it fell significantly to about 10 percent in the third month.[1]

The government responded with a package of liquidity and fiscal measures to stabilise the economy in the short term, to support low-income households, farmers, MSMEs, and the financial system.[2] These reforms may have a potential fiscal deficit impact of about 1.5 percent in fiscal year 2021. Coupled with contracting GDP and reduction in government revenue, this could lead to an incremental central fiscal deficit of about four percentage points over the budgeted 3.5 percent of GDP, with possible medium-term implications on government borrowing as well.

The government also announced several long-pending structural reforms that go some way to addressing issues we raise in this report. These included allowing farmers to sell produce more freely in the agricultural sector; starting the process of privatising power distribution companies in states and union territories; and providing more robust and portable benefits to migrant workers. India's state governments have been given some incentive to push these reforms further, by linking additional borrowings to progress on the reform agenda. If the detailed policies required in each of these areas are designed and implemented well, these reforms have the potential to help India recover to pre-COVID-19 levels and provide real growth impetus in 2023 and beyond, although at the time of writing, most execution details were still awaited.

1 Centre for Monitoring Indian Economy.
2 "Atmanirbhar Bharat Abhiyaan", Press Information Bureau of India, May 12, 2020.

15 Society of Indian Automobile Manufacturers database; Sandhya Keelery, Cement production volume in India from financial year 2008 to 2019, Statista, July 7, 2020; Profile Of The Indian Cement Industry, Shodh Ganga; *Handbook of statistics on Indian economy,* Reserve Bank of India, September 2013 and 2019; National Smaple Survey 2011–12 (68th round); Periodic Labour Force Survey 2017–18.

Nationally, to generate the productivity and jobs needed, the manufacturing and construction sectors will need to grow the most

In the context of both structural growth slowdown and the economic shock of the pandemic, recovering to a high-growth path will not be business as usual for India. Achieving the dual objectives of higher employment growth and higher productivity growth will require two sectoral shifts. First, India's sectoral mix would need to move towards higher-productivity sectors that also have the potential to create more jobs. Second, and more importantly, within individual sectors, there would need to be a move towards new business models that harness global trends to drive productivity and demand.

Two sectors—manufacturing and construction—have the potential to give the biggest lift to productivity and jobs growth, respectively. In other emerging economies, sectors such as construction and trade typically absorb the greatest numbers of workers moving out of agriculture and increase average labour productivity at the same time. While manufacturing has been a powerful growth driver in most outperforming economies, its share of employment is peaking and starting to decline earlier in the development process, a phenomenon called premature deindustrialisation.[16] Our analysis suggests that manufacturing may continue to be a source of job creation for countries, including India, with low wages, strategic endowments, or a sufficiently large domestic market size. Between 2000 and 2010, China's manufacturing GDP grew by 13 percent annually while the country simultaneously raised the share of manufacturing employment by five percentage points. Similarly, Bangladesh and Vietnam both increased their employment share of manufacturing by three percentage points and GDP share of manufacturing by five to six percentage points in the decade between 2006 to 2016 and 2009 to 2016, respectively.[17]

To set aspirations for the potential level of growth by sector for India, we look back to identify which sectors propelled India's earlier high-growth phase, between 2005 and 2012, when the overall economy grew at 8.2 percent per year. Based on this comparison, we find that the manufacturing and construction sectors could achieve the largest acceleration in sector GDP growth relative to the past (Exhibit E3). In the coming decade, manufacturing productivity has the potential to rise by about 7.5 percent per year, based on benchmarks of other outperforming economies, contributing more than one-fifth of the incremental GDP in our estimates. For example, adopting automation and Industry 4.0 practices in key manufacturing sectors can increase productivity by 7 to 11 percent.[18] Construction could add as many as one in four of the incremental gross jobs (before netting labour transitions out of agriculture). These estimates are based on elasticity of labour demand in the past and the performance of other outperformer economies and high-growth Indian states.

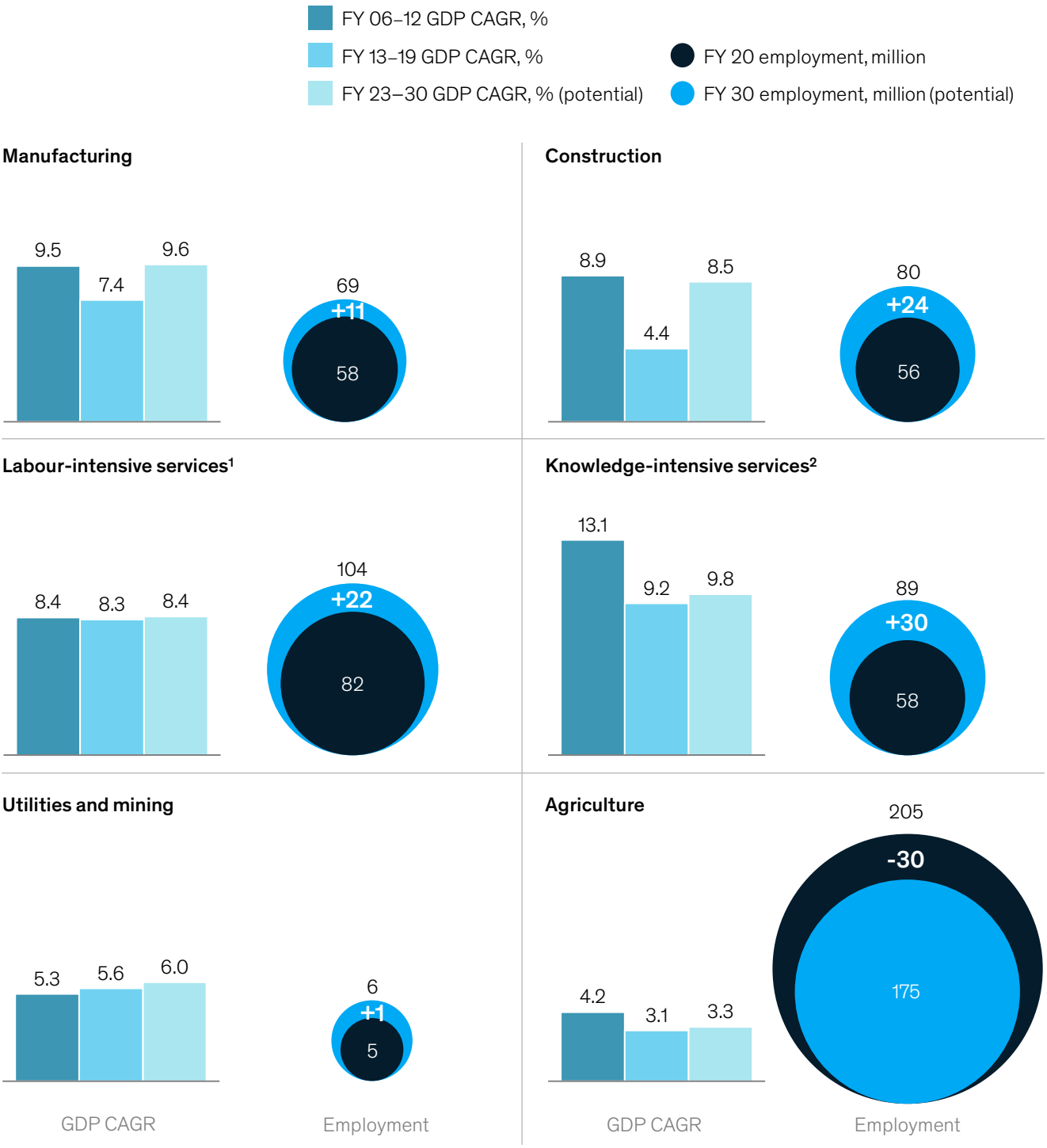
In addition, labour-intensive sectors such as trade, transportation and storage, and hotels and restaurants, and knowledge-intensive sectors including communication and broadcasting, information technology (IT) and business-process management (BPM), financial services, education, healthcare, and other professional services will collectively have to sustain and improve on their past strong momentum. The agriculture sector will need to increase productivity at its historical rate, thus continuing its long-term trend of shedding jobs as labour moves from agriculture into higher-productivity sectors and ensuring higher incomes for all workers, including those left in the agriculture sector. We estimate that about 30 million farm jobs could move to other sectors by 2030 as part of a high-growth strategy.

To create 90 million nonfarm jobs by 2030, India's GDP will need to grow 8.0 to 8.5% annually from 2023.

16 Dani Rodrik, "Premature deindustrialization", *Journal of Economic Growth,* March 2016, Volume 21, Number 1, pp.1–33.
17 For details, see *Outperformers: High-growth emerging economies and the companies that propel them,* McKinsey Global Institute, September 2018; IHS Markit Comparative Industry Service.
18 *A future that works: Automation, employment, and productivity,* McKinsey Global Institute, January 2017.

Exhibit E3

In the high-growth path, manufacturing and construction need to accelerate the most, while knowledge- and labour-intensive services maintain their historical momentum.



[1] Includes trade, transportation and storage, and hotel and restaurant sectors.
[2] Includes communication and broadcasting, IT-BPM, financial services, education, healthcare, and other professional services.
Note: Sectoral GDP and employment in the high-growth scenario estimated based on employment elasticities for India and several outperforming emerging economies. For details, see technical appendix.

Source: National Accounts Statistics, Ministry of Statistics and Programme Implementation; Periodic Labour Force Survey 2017–18, ILOSTAT; McKinsey Global Institute analysis

Beyond national aspirations, each state would also need to create enabling conditions to grow productivity within champion sectors

Beyond the national aspirations for growth by sector, the picture may look very different in individual states. State economies have followed varying patterns of growth since 2005, with different sectors emerging as champions. Regardless of which sector led, the states that achieved high productivity growth outperformed the rest from 2013 to 2019 in both GDP and employment growth. For these states, the impetus was provided by rising productivity of workers within sectors, rather than shifts in the mix across sectors. More important than selecting which sector to grow is to create the conditions for businesses within each sector to raise their productivity.

For example, among the high-growth states, the within-sector productivity growth for the states of Andhra Pradesh and Telangana (combined), Gujarat, Karnataka, and Odisha was 6.3 to 7 percent each year, much higher than that in underperforming states, where it was about 4.5 percent (Exhibit E4).[19] The services sector drove AP–Telangana's combined outperformance, while manufacturing was the champion in Gujarat. Karnataka's acceleration was powered by the services sector, while in Odisha, manufacturing and mining led the charge.

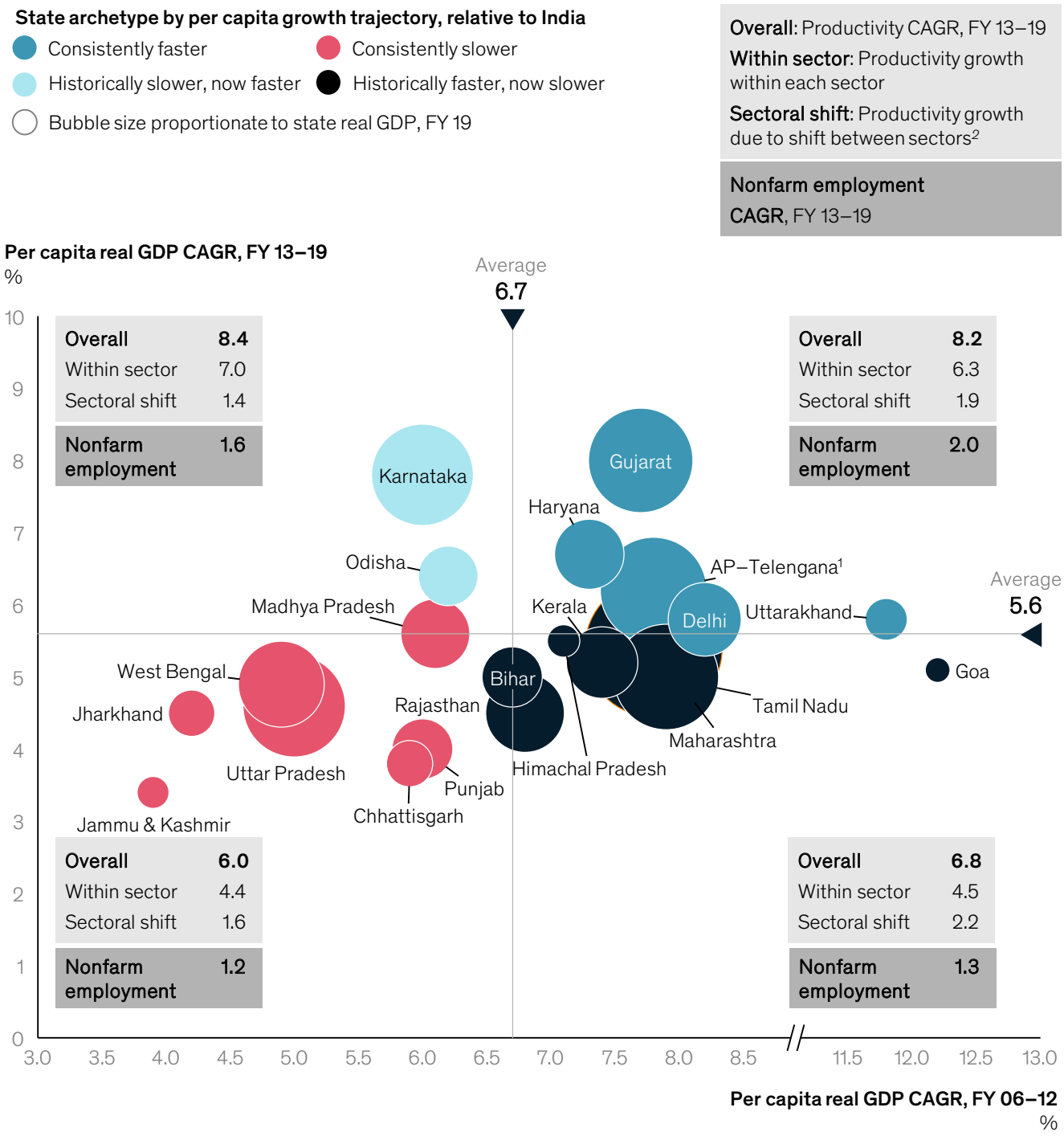
The lessons are twofold. First, while each state will need to find its champion sectors to propel growth, any sector can be transformed into a champion sector. Second, and more importantly, states will need to create the enabling conditions for high-productivity enterprises to flourish within sectors in order to create more competitive businesses and gainful work opportunities.

While each state will need to find its champion sectors to propel growth, any sector can be transformed into a champion.

[19] National Sample Survey 1999–2000 (55th round); National Sample Survey 2004–2005 (61st round); National Sample Survey 2011–2012 (68th round); Periodic Labour Force Survey 2017–18; ILOSTAT; National Accounts Statistics, Ministry of Statistics and Programme Implementation, 2020.

Exhibit E4

High within-sector productivity growth has boosted GDP growth, along with faster nonfarm employment growth.



[1] Andhra Pradesh and Telangana states together.
[2] Gross Value Added (GVA) data is used instead of GDP for productivity calculations at sectoral level. For details, see technical appendix.

Source: National Accounts Statistics, Ministry of Statistics and Programme Implementation; ILOSTAT; McKinsey Insights India; National Sample Survey 2011–12 (68th round); Periodic Labour Force Survey 2017–18, McKinsey Global Institute analysis

Three growth-boosting themes can contribute $2.5 trillion of economic value and support 30 percent of nonfarm jobs in 2030

To achieve 1.5 percent employment growth and 6.5 to 7 percent productivity growth, India needs to leapfrog ahead. Fortunately, it has many opportunities to do so. Global trends such as digitisation and automation, shifting supply chains, urbanisation, rising incomes and demographic shifts, and a greater focus on sustainability, health, and safety are accelerating or assuming a new significance in the wake of the pandemic.[20] These trends will drive demand for new kinds of goods and services and improve productivity. For India, they could manifest as three growth boosters that become the hallmarks of the post-pandemic economy. Within these three growth boosters we find 43 potential business opportunities that could create about $2.5 trillion of economic value in 2030 and support 112 million jobs, or about 30 percent of the nonfarm workforce in 2030.[21] About half the increase in GDP between fiscal year 2020 and 2030 could be contributed by these business opportunities. They also create job pathways for lower- and mid-skill workers to achieve higher productivity and wages, at least 2.5 times more than traditional models, on average, based on our estimates. Exhibit E5 details out these frontier opportunities and their potential economic value in 2030.

Growth booster 1: Global hubs serving India and the world (13 frontier business opportunities)

Despite the COVID-19 crisis, India can already position itself to be part of global value chains in key areas. Out of the total opportunity from the three growth-boosting themes of $2.5 trillion in economic value in 2030, this theme offers about $1 trillion. To achieve this, India will need to work now to grasp opportunities presented by forces such as rising wages in other parts of Asia, trade conflicts, and efforts to make supply chains more resilient.[22] Rising flows and volumes of data suggest demand for a range of offshored and nearshored services.[23] Greater affluence and leisure time and a focus on health and safety in advanced and emerging economies (including India) will also open up opportunities to produce and sell more manufactured goods and services. Examples include the following:

— **Globally competitive manufacturing hubs.** High-potential sectors like electronics and capital goods, chemicals, textiles and apparel, auto and auto components (including the electric vehicle ecosystem), and pharmaceuticals and medical devices contributed to about 56 percent of global trade in 2018. India's share of exports in these sectors is 1.5 percent of the global total, while its share of imports is 2.3 percent.[24] By raising its competitiveness in these sectors through government-led reforms in land, labour, and power, among others, as well as through firm-led productivity enhancement measures like supply chain digitisation, we estimate that India could generate $455 billion in economic value in 2030. These sectors could generate $400 billion in exports by 2030, up from $140 billion in 2018. Large exporters are about three times more productive than smaller manufacturers in these sectors and can support 11 million jobs in 2030 (about 16 percent of all manufacturing jobs).[25]

[20] The McKinsey Global Institute's extensive research on these trends includes, for example, *Digital India: Technology to transform a connected nation* (March 2019); *A future that works: Automation, employment, and productivity* (January 2017); *Globalization in transition: The future of trade and global value chains* (January 2019); *Urban World: Mapping the economic power of cities* (March 2011): and *Climate risk and response: Physical hazards and socioeconomic responses* (January 2020).

[21] Our estimates of economic value cover potential increases in gross value added (GVA) as well as productivity gains and cost savings made possible by these business models by 2030. See the technical appendix for further details.

[22] See *Risk, resilience, and rebalancing in global value chains,* McKinsey Global Institute, August 2020; *China and the world: Inside the dynamics of a changing relationship,* McKinsey Global Institute, July 2019; and *Globalization in transition: The future of trade and value chains,* McKinsey Global Institute, January 2019.

[23] *Digital globalization: The new era of global flows,* McKinsey Global Institute, February 2016.

[24] UN Comtrade DESA/UNSD, comtrade.un.org

[25] McKinsey Corporate Performance Analytics; CMIE ProwessIQ.

Exhibit E5

Three growth boosters, spanning 43 high-productivity frontier business opportunities, can contribute $2.5 trillion to the economy by 2030.

Potential economic value[1] $ billion, FY30

Global hubs serving India and the world 990	**Globally competitive manufacturing hubs**	455	Electronics, high tech and capital goods Chemicals (including plastics and rubber) Textiles and apparel Auto and auto components Electric vehicles (EVs) and batteries Pharmaceuticals and medical devices
	Global IT and digital services hub	285	Digital services in automation, cloud, cybersecurity, mobile, AI, 3-D printing, IoT, big data analytics, social media, etc
	High-value agricultural ecosystems	145	Digitally enabled agriculture services (precision advisory, National Agriculture Market (eNAM), digital farmer financing) Agriculture and food processing exports
	Healthcare services for India and the world	55	Medical and care-based service exports Remote and other innovative healthcare operating models Wellness and prevention therapeutics
	High-value tourism	50	Tourism circuits with high-quality infrastructure and services
Efficiency engines for India's competitiveness 865	**Next-generation financial services**	335	Flow-based lending Resolution and recovery business models Risk capital investment vehicles Long-term contractual savings products Digital payments
	Automation of work and Industry 4.0	275	Automation of current work activities (eg, network optimisation) Digital and analytics (including IoT)
	Efficient mining and mineral sufficiency	110	Market-based models (privatised, sublicenced) New models for exploration and sourcing
	High-efficiency power distribution and logistics models	80	Multimodal freight infrastructure Logistics platforms and marketplaces Market-based models in power distribution (privatised, sublicenced) Digitised power infrastructure
	E-governance of the future	65	Government e-Marketplaces Comprehensive Direct Benefit Transfer and portable benefits Digital Land 2.0 Digital citizen and business services
New ways of living and working 635	**Productive and resilient cities**	195	Affordable mass housing (leveraging modern construction methods) Mass transit Water infrastructure Property services
	Sharing economy for jobs, skills, and education	170	Online skilling and work platforms Online education platforms App ecosystems
	Modernised retail trade ecosystems	125	B2B/B2C marketplaces including e-commerce Digitised supply chains for traditional trade ecosystems
	Climate change mitigation and adaptation models	90	Mitigation models (renewables solutions, energy-efficient solutions in buildings and factories, waste-to-value and wastewater solutions, emission control solutions) Adaptation technologies
	Digital communication services	55	Universally available, affordable high-speed internet connectivity Digital media and entertainment

[1] Economic value is estimated annual value of productivity gains, cost savings, and incremental GVA. Each opportunity is sized separately; interaction effects are not considered. For details, see technical appendix.

Source: McKinsey Global Institute analysis

— **Global IT and digital services hub.** India's traditional strength in IT-enabled services can be augmented with modernised capabilities to reflect digital and emerging technologies like artificial intelligence (AI) and machine learning-based analytics. These technologies could propel as much as 40 percent of overall revenues in the sector by 2025, and exports could increase significantly from $150 billion currently.[26] India can generate $285 billion in economic value in 2030 with an average yearly investment of about $10 billion.

— **High-value agricultural ecosystems.** Agricultural products accounted for 8.5 percent of global trade in 2018, but measured by net exports, India has less than 1 percent share of this market.[27] Exports could grow to $95 billion by 2030, from $35 billion in 2018, by establishing export hubs for high value-added produce and food products, including livestock and fisheries, pulses including soybean, spices, fruits and vegetables, horticulture, and dairy, among others. In addition to creating handling, storage, and processing infrastructure, the sector can improve productivity drastically through farm-based digital services. For instance, adopting precision agriculture—providing real-time data to farmers to optimize fertilizers, pesticides, and other inputs—can increase productivity by up to 60 percent, while 60 percent of agricultural surplus can be transacted through e-marketplaces, improving farmers' price realisation by 10 percent.[28] These models, combined with processing hubs, can generate about $145 billion of economic value by 2030 with an average yearly investment of $10 billion.

— **Healthcare services for India and the world.** India can do more to build infrastructure and harness innovative healthcare operating models such as tech-enabled remote healthcare, wellness and prevention therapeutics, and medical and care-based service exports. Using digital technologies to reallocate tasks between doctors, nurses, and health associates, enabled by law and policies, could free up 20 to 25 percent of doctors' capacity.[29] This would result in better access to healthcare and savings through reduction in days lost due to ill health. The preventive healthcare and wellness market could grow from about $17 billion in 2020 to about $60 billion in 2030, driven by rising per capita preventive healthcare expense, in line with other emerging economies.[30] The number of medical tourists alone could rise 4.5 times, from about 640,000 in 2018 to about three million in 2030, provided steps are taken to keep costs affordable, ensure a supply of qualified doctors, enhance India's overall reputation in healthcare, and simplify patient processes.[31]

— **High-value tourism.** In 2018, about 10 million foreign tourists visited India, far fewer than Thailand (38 million, including 10 million to Phuket alone) and China (63 million).[32] Tourism circuits with high-quality infrastructure and services could attract some 50 million foreign tourists in 2030. This could generate $100 billion in spending to boost local economies and create higher-earning opportunities for five million low- and medium-skill service-sector workers.

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26 *Perspective 2025: Shaping the digital revolution,* NASSCOM, October 2015; *Technology sector in India 2020: TECHADE: The new decade strategic review,* NASSCOM, 2020.

27 UN Comtrade DESA/UNSD.

28 R, Maheshwari, K. R. Ashok, and M. Prahadeeswaran, "Precision farming technology, adoption decisions and productivity of vegetables in resource-poor environments", *Agricultural Economics Research Review,* September 2008, Volume 21; *Doubling farmers' income,* NITI Aayog, policy paper number 1/2017, March 2017.

29 N. Chandrasekaran and Roopa Purushothaman, *Bridgital Nation: Solving Technology's People Problem,* Gurgaon, India: Penguin Books, October 2019.

30 *Value added service—wellness and preventive healthcare,* Federation of Indian Chambers of Commerce and Industry (FICCI), December 2016; *Indian habit of being healthy,* Redseer, September 2018.

31 India tourism statistics 2019, Ministry of Tourism, 2019.

32 India tourism statistics 2019, Ministry of Tourism, 2019; *International tourism highlights 2019,* World Tourism Organization (UNWTO); Mastercard's Global Destination Cities Index 2019.

Growth booster 2: Efficiency engines for India's competitiveness (17 frontier business opportunities)

Technological innovation—accompanied by the appropriate governance and market reforms—can help India improve economy-wide competitiveness. The business models in this grouping can eliminate inefficiency in areas that underpin a competitive economy: power, logistics, financial services, automation, and government services. In each case, opportunities for value-creating market-based models could emerge, generating about $865 billion in economic value by 2030.[33] Examples include the following:

— **Next-generation financial services.** Key opportunities include innovation in digital payment offerings, new flow-based lending products that use a variety of transactions and other types of data to underwrite loans, asset resolution and recovery models that could make insolvency processes more streamlined and effective, and a larger range of risk capital investment vehicles such as alternative investment funds (AIFs), private equity, and products and channels that deepen the long-term contractual savings market of insurance and pensions. For example, we estimate that 80 percent of the unmet credit needs of MSMEs could be bridged by 2030 by leveraging data generated by platforms like the Goods and Services Tax Network to verify these companies' financial status.[34]

— **Automation of work and Industry 4.0.** At least 12 to 13 percent of today's work has the potential to be digitised, for example through network and inventory optimisation and demand-based planning—and that share could rise as the impact of COVID-19 sets in. The benefits include greater efficiency; for example, about 60 percent of manufacturing-sector output could leverage predictive maintenance, smart safety management, and product design. These in turn can lift productivity in plants and factories by 7 to 11 percent.[35] Across sectors, India could generate $275 billion in economic value by 2030 while supporting 16 million jobs. Many workers in these roles will need retraining, and some may be displaced, needing redeployment.

— **Efficient mining and mineral sufficiency.** India's geological strata are similar to Australia's, suggesting that the country is rich in minerals. However, in 2016–17, India's import-to-production ratio was high, at 3.7.[36] Resource access is critical to India's manufacturing growth. Requirements for energy and resources to drive this growth will make India even more heavily dependent on imports. Auctioning larger leases by amalgamating smaller resource blocks and enabling private participation could improve efficiency and increase exploration. This in turn could help India achieve resource sufficiency in an efficient and sustainable manner in materials like coal, with production rising from about 900 million tonnes to about 1.2 billion tonnes and zero net imports in 2030. Iron ore production could grow to more than 420 million tonnes by 2030, from about 200 million tonnes in 2018, according to our estimates.[37] Similarly, bauxite could increase from 20 to about 35 million tonnes from 2018 to 2030 and zinc-lead ore could potentially increase from 8 to more than 10 million tonnes by 2030. The increase in production of these resources would need to be carried out in an efficient and sustainable manner.

— **High-efficiency power distribution and logistics models.** In the power sector, compared to 20 other countries, India is the only economy whose industrial power tariffs are higher than residential tariffs, making the manufacturing sector less competitive. This is largely due to inefficiencies in power distribution and cross-subsidisation.[38] Undertaking productive market-based models like privatised or franchised distribution companies, rationalisation of tariffs, and digitised power infrastructure could reduce power tariffs to the commercial and industrial (C&I) segment of power consumers by

[33] For business models, including automation of work and Industry 4.0, e-governance, and digital communication services, see *India's trillion-dollar digital opportunity,* Ministry of Electronics and Information Technology, February 2019.
[34] *Digital India: Technology to transform a connected nation,* McKinsey Global Institute, March 2019.
[35] *A future that works: Automation, employment, and productivity,* McKinsey Global Institute, January 2017.
[36] Ministry of Mines annual report, Ministry of Commerce.
[37] McKinsey BMI; McKinsey MineSpans.
[38] Energy prices and taxes, International Energy Agency, 2016.

20 to 25 percent, by our estimates. Similarly, India's logistics costs, at 13 to 14 percent of GDP, are high by global standards, and its modal mix is skewed towards high-cost road transport, which accounts for 60 percent of logistics, compared with 37 percent in the United States.[39] Building a multimodal freight ecosystem with a greater share of low-cost rail and water modes, and logistics marketplaces could drive down cost by 20 to 25 percent. Creating efficient logistics and power distribution models could be a game-changer for India's manufacturing competitiveness.

— **E-governance model of the future for government services.** Digital technologies can bring about a step change in government services, lowering both cost and time spent, for example through comprehensive direct benefit transfer (DBT) and portable benefits, government e-marketplaces, digital land services, and digital citizen and business services. For example, DBT has already shown an estimated savings of 10 percent; 80 percent of government procurement can be made electronically, leading to price efficiency gains of 10 percent.[40] We estimate the potential annual economic value from e-governance to be at least $65 billion by 2030, improving the productivity of the public administrative workforce by about 15 percent and creating other wide-ranging productivity benefits to the economy.

Growth booster 3: New ways of living and working (13 frontier business opportunities)
Indian businesses can create economic value of about $635 billion by 2030 if they tap into the shifting preferences of Indians aspiring to a higher standard of living. Safer, higher-quality urban environments, cleaner air and water, more convenience-based services, and more independent work in the new ideas-based economy are all opportunities to create millions of productive jobs in service sectors. Examples include the following:

— **Productive and resilient cities with affordable housing and infrastructure.** India has the opportunity to put in place a robust planning approach for its top cities, which have low capital investment per capita and are less productive than they should be. India would need 25 million affordable housing units by 2030, at a low cost of at most 2,000 rupees per square foot, depending on income segment.[41] For example, mass affordable housing that uses modern construction practices, including prefabricated and modular construction and lightweight aluminium formwork is five to six times more productive than the sector average and would reduce cost to home buyers.[42] Other opportunities include a planning approach that increases the floor space index (FSI) systematically to make the right parts of cities more dense and productive. India's maximum FSI ranges from 1.8 to 5 across most cities, while averages are lower as the minimum FSI across cities ranges from 1.2 to 3.5. By contrast, FSI in cities in developed countries across the world are higher; for example, the maximum FSI level in New York is 12, and in Singapore it is 14.[43] With city planning in place, several opportunities to build businesses around this theme may occur, including mass affordable housing leveraging modern construction practices, urban infrastructure such as mass transit, and water, among others. Put together, for a country of India's urban scale, we estimate that these ideas could generate $195 billion in economic value in 2030 and support about 30 million jobs, for average yearly investments of $75 billion.

39 Draft National Logistics Policy, Ministry of Commerce, February 2019.
40 Direct Benefit Transfer, Government of India; *Digital India: Technology to transform a connected nation,* McKinsey Global Institute, March 2019.
41 *Brick by brick: Moving towards "Housing for All",* Royal Institution of Chartered Surveyors (RICS) and Knight Frank, 2019.
42 See *Reinventing construction: A route to higher productivity,* McKinsey Global Institute, February 2017.
43 Prahalad Singh, *Updates: Floor Space Index in India's Top Cities,* Common Floor, November 15, 2019; Purva Chitnis, "FSI Increased for Residential, Commercial Buildings in Mumbai," *Bloomberg Quint,* April 27, 2018; *Shaping Melbourne's Central City,* Department of Environment, Land, Water and Planning, Victoria State Government, November 2016.

— **Sharing economy models for jobs, skills, and education.** These models reflect changes in demographics and consumption, including online training and work platforms, education platforms, and app ecosystems to share ideas and meet all sorts of needs. More efficient and transparent labour markets result in better matching, leading to 6 to 7 percent higher wages, 7 to 22 percent less search time, and increased labour force participation, especially of women. Some 60 percent of new entrants into the labour force could potentially acquire new skills using digital tools and technologies.[44]

— **Modernised retail trade ecosystems.** India's share of traditional trade is high relative to peers at about 85 percent, while its modern trade and e-commerce segments account for only 10 percent and 5 percent of total gross merchandise value, respectively.[45] We estimate that modern trade and e-commerce are five and nine times more productive than traditional retail. Both these modes offer convenience and value, which are two key requirements for an Indian consumer. Following the pattern of other emerging economies, India could increase the share of both e-commerce and modern trade to 20 percent and put in place digitally enabled supply chains. Such steps would generate $125 billion in economic value by 2030 and lift the productivity of 5.1 million storekeepers in the fragmented retail sector and workers in the e-commerce sector.

— **Climate change mitigation and adaptation models.** The growing physical risks and rising hazards of climate change are creating opportunities in mitigation and adaptation models.[46] Some mitigation models include more energy-efficient buildings and factories, waste-to-value and wastewater solutions, and improved emission controls. Adopting more renewable solutions could have a significant impact: India could more than quadruple its renewable energy capacity, from 87 gigawatts to 375 gigawatts, and increase the share of wind and solar energy in power generation from about 7 percent in 2019 (overall renewables share excluding hydro-electric power is 8.3 percent) to best-in-class (about 30 percent) in 2030.[47] Climate risk adaptation technologies, for example, protecting a city from rising sea levels, developing early-warning systems for lethal heat waves, and installing cooling shelters to protect those without air-conditioning, could also become opportunities. We estimate that all of these opportunities could generate $90 billion in economic value in 2030 and support about two million jobs for an average yearly investment of $75 billion.

— **Digital communication services.** Communication, media, and entertainment are at an inflection point, with increasing numbers of smartphone users and rising data consumption. Digital media and entertainment are spurred by universal high-speed connectivity, with mobile as the primary channel. Technologies such as augmented reality, virtual reality, artificial intelligence, and natural language processing help customise and enhance the user experience. Services with high growth potential include over the top (OTT) video streaming, with strong original content and distribution capabilities, digital classified ads in recruitment, matrimony, automotive, real estate, and other categories. Other fast-growing opportunities include digital gaming, in particular, app development for "Indianised" games, and digital media, particularly local language news content. This can generate opportunities in universally available, affordable, high-speed internet connectivity and fast-growing digital media and entertainment ecosystems. In all, this opportunity could generate $55 billion in economic value in 2030, with an average yearly investment of $3 billion.

44 *Independent work: Choice, necessity, and the gig economy,* McKinsey Global Institute, October 2016.
45 Euromonitor International Retailing 2020 Edition.
46 See *Climate risk and response: Physical hazards and socioeconomic impacts,* McKinsey Global Institute, January 2020.
47 "India set to cross 100GW renewable energy capacity mark in 2020", *Economic Times,* December 26, 2019; *Global Energy Statistical Yearbook 2020,* Enerdata; Energy statistics 2020, Ministry of Statistics and Programme Implementation.

We estimate that enabling these 43 frontier business opportunities will require an average annual investment of $425 billion. That is about half of India's total investment in fiscal year 2020, $865 billion.[48] All of these frontier business opportunities require targeted reforms including sector-specific policies and incentives in manufacturing, real estate, and other sectors.

To capture promising frontier opportunities, some 1,000 midsize and small firms will need to become large and 10,000 small firms need to become midsized

Large companies that are productive and competitive will play a critical role in creating these frontier business opportunities. Our research suggests that in other outperforming emerging economies, large firms with annual revenues exceeding $500 million not only help boost GDP and productivity but also act as catalysts for change—driving exports, investing in job training, and paying higher wages, among other factors. They are also nimbler and more innovative at adopting new technologies.[49]

In India, too, large companies have been significant drivers of growth and innovation over the past three decades, although their contribution to GDP has declined since 2012. India has about 600 such firms. Their labour productivity is 11 times higher than that of the overall economy. They are 2.3 times more productive than midsize firms (revenues between $40 million and $500 million), and their profitability is 1.2 times greater. They account for almost 40 percent of total exports and employ 20 percent of the direct formal workforce. They provide jobs with better benefits than other companies do.[50]

Large firms in India face two major challenges, however. First, India has fewer large firms relative to GDP, and those firms make a smaller revenue contribution to GDP than corporate peers in China, Malaysia, South Korea, and Thailand. Second, the productivity and profitability performance of large companies in India have scope to close the gap with peers in other outperforming emerging economies.

Large Indian firms contributed revenues equivalent to 48 percent of nominal GDP in 2018. Large firms on average contribute 1.5 to 1.6 times more in other outperforming emerging economies, including China, Malaysia, and Thailand—and 3.5 times more in South Korea. This pattern holds in a number of key sectors. For example, the revenue contribution of India's 27 large construction firms is 11 percent of the sector's nominal gross value added (GVA). Other outperformer economies have between two and ten times the number of large firms (adjusted for size), and their revenue contribution is roughly seven to 12 times larger. The story is similar in retail trade, where India's 48 large firms make a revenue contribution of 38 percent of nominal GVA. Adjusted for size, that is about one-half to one-quarter the number of large firms in peer economies, whose revenue contribution is up to 13 times larger.

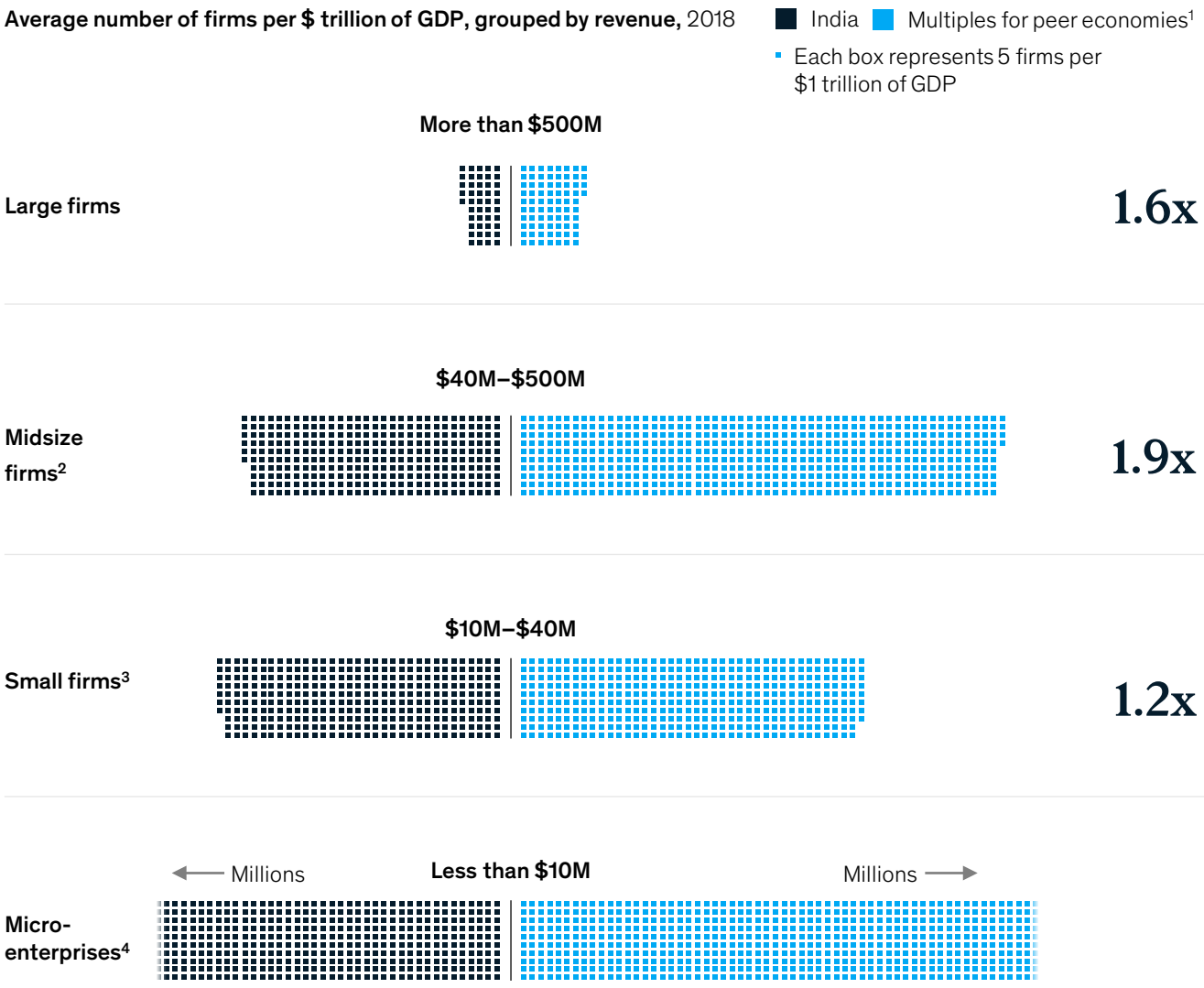
India's large firms have also not achieved their productivity or profitability potential. Overall productivity levels are on average one-tenth to one-quarter those of peers in other outperformer economies across sectors. Large state-owned companies in some sectors fall behind private-sector productivity levels: although there are some notable exceptions, Indian state-owned enterprises (SOEs) as a whole are at best half as productive as private-sector companies across key sectors.[51] The profitability of India's large firms, measured as return on assets, has been falling since 2012, from 1.9 to 1.2 percent, particularly driven by a few sectors such as financial services and construction, among others. Profits are also concentrated within a few large firms. Our analysis shows that just 20 of the country's roughly 600 large firms contribute 80 percent of the total profit of large firms.

48 National Accounts Statistics, Ministry of Statistics and Programme Implementation, 2020.
49 *Outperformers: High-growth emerging economies and the companies that propel them*, McKinsey Global Institute, September 2018.
50 CMIE ProwessIQ; McKinsey Corporate Performance Analytics; National Accounts Statistics, Ministry of Statistics and Programme Implementation, 2020; Periodic Labour Force Survey 2017–18; EPFO India.
51 World Input-Output Database (WIOD); CMIE ProwessIQ.

What underlies these performance trends and the difficulty of scaling? One factor is that India has a "missing middle" of midsize firms that typically grow into formidable competitors of larger rivals and, as happens in other emerging economies, eventually topple some of them from their perch. For example, peer emerging economies have almost twice as many midsize firms per trillion dollars of GDP with revenue between $40 million and $500 million. As a result, peer economies end up with 1.6 times the number of large firms with revenues more than $500 million, compared to India, per $1 trillion of GDP (Exhibit E6).

Exhibit E6

India has only about one-half to two-thirds as many midsize and large firms compared to other "outperformer" emerging economies, per $1 trillion of GDP.



[1] Peer economies refers to China, Malaysia, Thailand, South Korea, and Vietnam.
[2] Midsize firms are companies with revenue of $40M to $500M.
[3] Small firms have revenue of $10M to $40M.
[4] Microenterprises have revenue of less than $10M; total number of microenterprises in India are estimated to be 63 million as per *Ministry of Micro, Small & Medium Enterprises Annual Report 2018–19*.

Source: McKinsey Corporate Performance Analytics; CMIE ProwessIQ; McKinsey Global Institute analysis

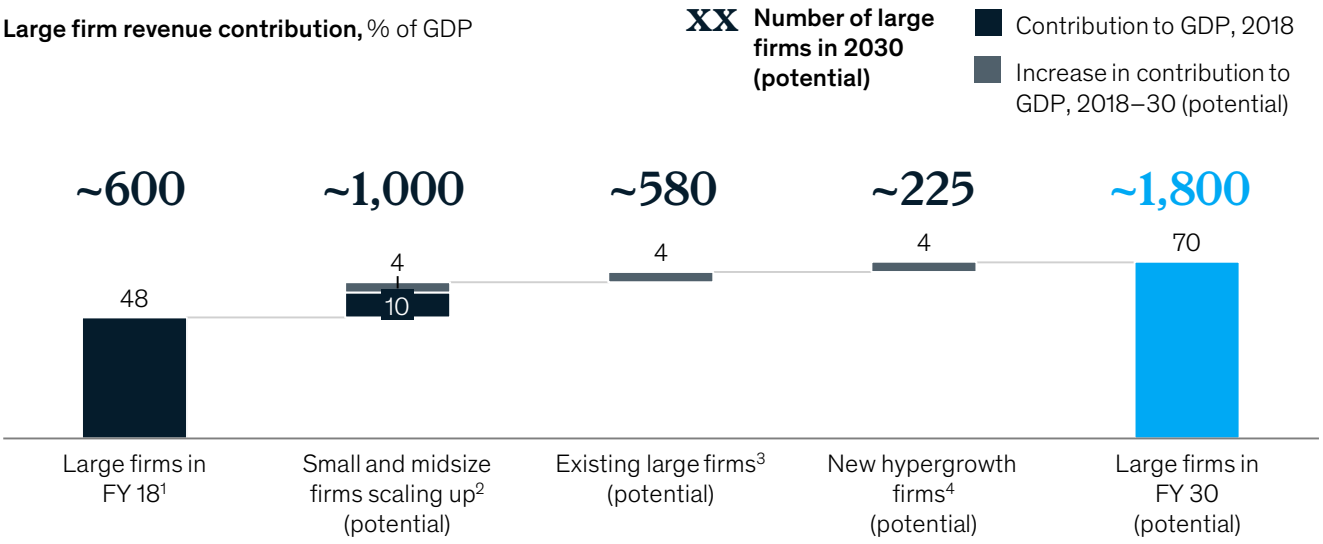
The upward mobility of small and midsize firms matters because it influences the degree of competitive pressure to which large firms are subjected. The higher such pressure, or contestability, the greater the likelihood that only the most efficient and high-performing firms will survive at the top. In some other emerging economies, it is harder for big firms to stay at the top. In China, for example, 66 percent of companies in the top quintile of firms by economic profit have been replaced over the past two decades. In India, by contrast, only 57 percent of top companies were replaced. In some sectors in India, including automotive and chemicals, the percentage of incumbents who were replaced is even lower.

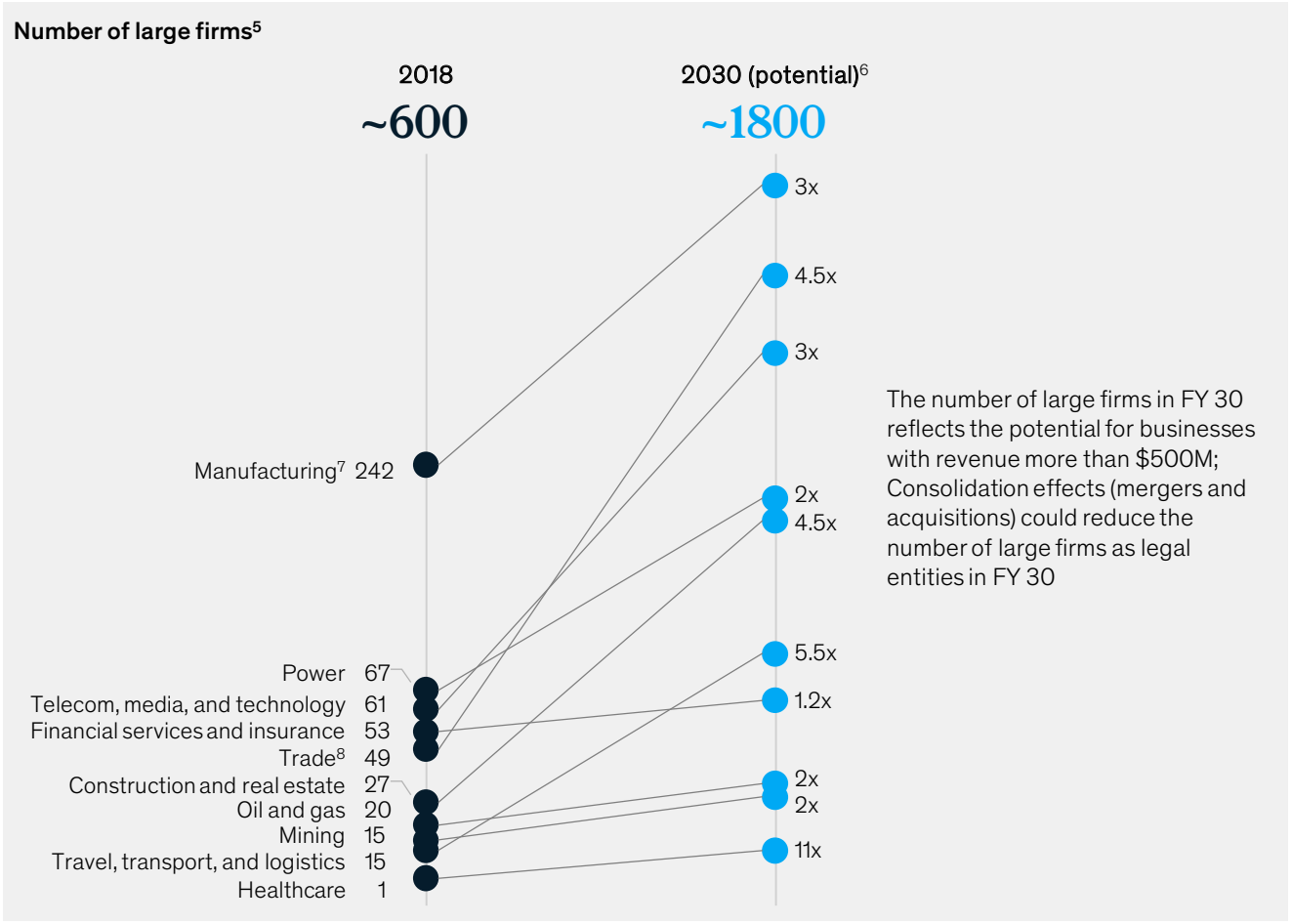
In order to achieve higher and system-wide productivity, India would need to raise the level of contestability and enable 1,000 or more small or midsize firms to scale up to large firms, and 10,000 or more small firms to scale up to midsize (Exhibit E7). That in turn will require capital: we estimate that these firms will need about six times the amount of capital currently used, of which about half needs to be risk capital. Achieving such a goal will take reforms to deepen capital markets and enable efficient financial intermediation for savings to reach these companies. It will also mean taking steps to improve the ease and reduce the cost of doing business at the national and state level, as we discuss below. If the reforms are successful, the number of large firms in India could more than triple, and their revenue as a proportion of India's GDP could rise from 48 to 70 percent—more in line with benchmark emerging economies. They could also account for about 15 million jobs in 2030.

India will need 1,000 or more small and midsized firms to scale up into large ones, tripling their number.

Exhibit E7

Large firms' revenue could rise to 70 percent of GDP in 2030 as about 1,000 smaller firms scale up; the greatest potential lies in fragmented sectors such as trade.





1 Firms with revenue more than $500M in FY 18.
2 Firms with revenue less than $500M in FY 18, but growing to more than $500M revenue by FY 30.
3 Firms with revenue more than $500M in FY 18 as well as FY 30.
4 Firms incorporated after FY 18, growing to become firms with revenue more than $500M by FY 30.
5 Excludes other miscellaneous firms not a part of the represented sectors. Companies operating in more than one sector considered in the sector that contributed to maximum revenue in FY 18.
6 Potential number of large firms by FY 30 represented as a multiple of the number in FY 18, rounded off to the nearest half.
7 Includes automotive, auto components, and advanced industries; basic materials; cement; chemicals; consumer goods; manufacturing of electronics; pharmaceuticals and medical products; steel; textiles; and other manufacturing.
8 Includes wholesale and retail trade; and hotel, restaurant, and entertainment.

Source: McKinsey Corporate Performance Analytics; CMIE ProwessIQ; National Accounts Statistics, Ministry of Statistics and Programme Implementation; IHS Markit Comparative Industry Service; McKinsey Global Institute analysis

Six areas of targeted reform are critical to unlock opportunities

To seize the chances offered by the frontier business opportunities—and to help increase the productivity and competitiveness of India's firms—we outline reform options on six key themes to boost productivity and job growth and in general make doing business easier. These reforms would also continue the push to formalise the economy and make it more inclusive. Exhibit E8 lists reforms critical for major sectors and frontier business opportunities. In a number of cases, the government in its reaction to the COVID-19 pandemic has already begun to introduce some of the measures. However, much more needs to be done across all six themes in order to achieve the $2.5 trillion in economic value and the decade of high GDP and productivity growth we envision. The measures are not exhaustive, but focus on the main policies that will move the needle most significantly.

1. **Introduce sector-specific policies to raise productivity in manufacturing, real estate, agriculture and food processing, retail, and healthcare**

Specific measures in key sectors can boost India's competitiveness and raise investment in product markets. In all, we estimate that these sectors—manufacturing, construction, labour-intensive services, knowledge-intensive services, utilities and mining, and agriculture—could contribute $6.3 trillion in GDP in 2030, compared to $2.7 trillion in 2020.[52]

— **Manufacturing.** The manufacturing sector has the potential to generate $1.25 trillion in GDP in 2030, more than double the $500 billion it accounted for in 2020. A key step forward for India to build out the global manufacturing hubs described earlier will be a holistic policy framework that takes into account each sector's needs and priorities. This can have three components. First, a stable and declining tariff regime, with removal of inverted duty structures. For example, high-tech firms and others can import certain items at customs duties of 10 percent or less, whereas raw materials including seamless alloy steel tubes, pipes, and carbon steel all carry a 15 percent customs duty.[53] Second could be building well-functioning, port-proximate manufacturing clusters, with free-trade warehousing zones, faster approval processes, and more flexible labour laws, as China has done in its free-trade zones. A final element is select sets of incentives, which are targeted, time-bound, and conditional and reduce the cost disadvantage India faces in comparison with other outperforming emerging economies. For example, handset production is between 10 and 20 percent more expensive in India than in Vietnam or China, which have benefited from cheaper components due to a strong manufacturing ecosystem and better infrastructure.[54] These incentives, potentially including tax concessions as well as incentives for capital investment and innovation, could be granted on achievement of certain output and investment-linked targets to help close the gap in key sectors, including electronics, auto, chemicals, pharmaceuticals, and food processing. To take one possible example, that of chemicals, incentives might be provided for capital expenditure, for example, for plant and machinery for integrated chemical parks, or tax concessions for environmental protection facilities, and incentives for innovation.

Manufacturing could generate $1.25 trillion in GDP in 2030, more than double the total today.

52 National Accounts Statistics, Ministry of Statistics and Programme Implementation, 2020.
53 SN Roy and Abhishek Agrawal, "How to achieve self-reliance in the capital goods sector", *Hindu BusinessLine*, May 19, 2020.
54 Ministry of Electronics and Information Technology; "Hanging up on mobile phone exports, India likely to miss 'hub' tag", *Business Standard*, January 14, 2020.

Exhibit E8

Six reform themes are critical for major sectors and frontier business opportunities within each sector.

Real CAGR FY 23–FY 30, % (potential) | Nominal GDP in FY 30, $ billion (potential) | Jobs in FY 30, million (potential) | ● Critical reform area

Frontier business opportunities	❶ Select sector-specific reforms (illustrative)	Real CAGR FY 23–FY 30, % (potential)	Nominal GDP in FY 30, $ billion (potential)	Jobs in FY 30, million (potential)	Cross-cutting reforms: Land ❷	Labour ❸	Power ❹	Privatisation, asset sales ❺	EODB, CODB[1] ❻
Manufacturing		9.6%	1,250	69					
Electronics, high tech and capital goods	A stable and declining tariff regime and removal of inverted duty structure				●	●	●	●	●
Chemicals, plastics, rubber	Port-proximate clusters with free-trade warehousing zones, faster approval processes, flexible labour laws, plug-and-play infrastructure, low input costs				●	●	●		●
Auto and auto components					●	●	●		●
Electric vehicles (EVs) and batteries	Holistic sector-specific policy framework such as time-bound and conditional incentives, eg, production-linked incentives, capital subsidies, etc; clear, stable tech-agnostic policies to aid innovation, quality management, etc				●	●	●		●
Pharmaceuticals and medical devices					●	●	●		●
Textiles and apparel					●	●	●		●
Construction		8.5%	550	80					
Affordable mass housing	Large-scale housing projects; single-window clearances; reduced fees; level playing field in terms of taxes like GST; home ownership tax incentives, regulatory amendments, increased FSI in city master plans				●	●			●
Mass transit					●	●			●
Water infrastructure					●	●			●
Property services					●	●			●
Labour-intensive services		8.4%	1,150	104					
Modern retail and e-commerce	Level playing field, eg, business model and product agnostic FDI policy								●
B2B/B2C marketplaces									
Digitised supply chains									
High-value tourism					●		●		●
High-efficiency logistics models					●		●	●	●
Multimodal freight operations									
Logistics platforms									
Knowledge-intensive services		9.8%	2,550	89					
Healthcare services for India and the world	Higher primary healthcare spending: public-private-partnership models; tele-health regulations, online training in new tasks; simplified processes for medical tourists, digital portal for tourists to access professionals and infrastructure				●	●	●		●
Innovative operating models									
Wellness and prevention therapeutics									
Medical and care-based service exports									
Global IT and digital services hub					●		●		●
Digital services in automation, cloud, analytics, etc									
E-governance of the future: DBT, etc									●
Online skilling, education, and work platforms and app ecosystems					●		●		●
Universal, high-speed internet and digital media and entertainment					●		●	●	●
Next-gen financial services	Channelling household savings to capital markets; tax incentives, creating a level playing field, enabling more risk capital investment vehicles, removing product market barriers; special assets bank, privatisation of banks							●	●
Utilities and mining		6.0%	300	6					
High-efficiency power distribution	Franchised/privatised DISCOMS; higher renewables share; lowered cross-subsidies; targeted subsidies						●	●	
Climate change mitigation and adaptation models					●		●		●
Mitigation models: renewables, energy-efficient solutions, waste-to-value and wastewater solutions, emission control solutions	Continued interstate grid transmission access, enforcement of minimum purchase of renewables by DISCOMs , transition to secondary and tertiary ancillary services markets, grid banking, time of day tariffs, net metering								
Climate risk adaptation technologies									
Efficient mining and mineral sufficiency					●	●		●	●
Agriculture		3.3%	600	175					
Agriculture and food processing exports	Reforms to MSP, APMC, ECA, GST; agriculture-production clusters; viability gap funding for food processing facilities; stronger FPOs for aggregation and finance[2]				●	●	●		●
Digitally enabled agriculture services									●

[1] Ease of doing business and cost of doing business.
[2] MSP: Minimum Support Prices; APMC: Agricultural Produce Market Committee; ECA: Essential Commodities Act; GST: Goods and Services Tax; FPO: Farmer Producer Organization.

Source: McKinsey Global Institute analysis

— **Real estate.** The construction sector has the potential to more than double its GDP to $550 billion, from $250 billion in 2020. Productive and resilient cities, which we identify as an aspiration for India, will require significant changes in the real estate sector. The ratio of home price to income is on average 4.3 in the eight largest cities in India, compared to less than 1.5 in a set of OECD countries.[55] The higher price of land in India is a large contributing factor and land market reforms, which we discuss below, would have a substantial impact; other sector-specific measures could also help boost the real estate sector. Home-ownership could be incentivised by rationalising stamp duties and registration fees to reduce costs to buyers and offering greater tax incentives, potentially including US-style tax deductions for mortgages up to a certain level. Regulatory amendments in tenancy and rent control policies could bring additional investment into the construction of rental stock. Large-scale affordable housing projects could enable modern construction methods that can increase productivity and reduce costs. Creating a level playing field with respect to goods and services tax for prefabricated and regular buildings would also help. Finally, time and cost delays can be brought down substantially by introducing a digitally enabled, single-window clearance for large affordable housing projects.

— **Agriculture and food processing.** India's potential to generate up to $95 billion in high-value agricultural exports will require a number of domestic reforms. This export growth could be driven predominantly by livestock and fisheries, pulses like soybean, spices, fruits, and vegetables, horticulture, dairy, and other agricultural produce. It could raise agricultural productivity and farmers' incomes. Possible options include changing the Agricultural Produce Marketing Committee (APMC) Act to ensure barrier-free interstate trade and amending the Essential Commodities Act (ECA) to deregulate the supply and distribution of agricultural commodities. Such steps would, in turn, enable private entities to set up their own markets, attract investment in infrastructure, and offer farmers competitive remuneration. These reforms have been announced by the government as part of its COVID-19 package, but they will need to be supported by specific policies and implemented at the state level. Furthermore, reforms to the system of minimum support prices could also potentially bring down the cost of commodities and help farmers develop a more accurate sense of market pricing; farmers could in return receive direct subsidies or other forms of support. The goods and services tax structure could also be reformed to encourage more value-added activities. Commodities currently are not taxed, unlike processed foods, which incur a tax of up to 18 percent.[56]

— **Retail trade.** Achieving the potential $125 billion in economic value by 2030 that we have identified will require a fundamental transformation of the retail landscape, with traditional models that account for more than 85 percent of sales volume giving way to a much larger share of e-commerce and modern trade. Improving supply chains, ensuring procurement scale, and enabling omnichannel and online-to-offline channels could also boost productivity. To achieve this shift, India will need a level playing field across trade formats, which would imply minimal regulatory intervention and a competitive environment with improved ease of doing business. One possible measure would be to adopt a foreign direct investment policy that is agnostic to both business models and products.

— **Healthcare.** India's potential to increase access to quality healthcare and attract medical tourism will require ramped-up spending and investment from the public sector; more than half of households in urban areas and about two in five households in rural areas currently depend on private-sector healthcare.[57] India currently spends about 3.5 percent of GDP on healthcare, below the level in China (5.2 percent) and Brazil (9.5 percent); in OECD countries, the average is just below 9 percent. We estimate that India could nearly double healthcare spending to 6.4 percent of GDP by leveraging public-private-partnership models and doubling public investment from about 28 percent to

[55] *Institutionalising the rental housing market in India - 2019*, Khaitan & Co and Knight Frank, 2019; House-price-to-income ratio in selected countries worldwide as of 1st quarter 2019, Statista, December 2, 2019.
[56] GST rates for goods and services as of 30.06.2020, Central Board of Indirect Taxes and Customs.
[57] Patralekha Chetterje, "Gaps in India's preparedness for COVID-19 control", *The Lancet Infectious Diseases*, April 17, 2020, Volume 20, Number 5.

56 percent.[58] India could also increase healthcare productivity by enabling new business models, including telemedicine, that make more effective use of human resources along the healthcare value chain. To attract medical tourists, India will need to simplify and rationalise processes, such as visa approvals and access to medical professionals through a digital portal, innovative services, and medical packages.

2. **Unlock land supply to reduce the cost of residential and industrial land use, spurring demand for construction labour and building materials, and making industry more competitive**

As noted in the real estate section above, buying a home is financially out of reach for many Indians, especially those in the bottom two income segments. The high cost of land is a key reason. For companies, too, high-cost land is a brake on expanding productive capacity. We estimate that, by enacting several key reforms, India has the potential to reduce land costs by 20 to 25 percent and increase the supply of land available for construction.[59]

Steps towards achieving this could include mapping out 20 to 25 percent of public and state-owned enterprises' land that is suitable for construction and currently underused. Large amounts of land are available with defence, railways, port trusts, and airports. A portion of this land could be leased out at affordable prices to private developers. Other countries have already tried this; for example, Turkey released 16,000 hectares of land for affordable housing at marginal prices between 2003 and 2013.[60] Floor space index zoning regulations could also be reformed to reflect variations in accessibility via public transit or the distance from central business districts. Informal settlements and unregistered land could be formalised, including by speeding up the digitisation of land records, cadastral maps, and surveys, deploying modern technologies including differential GPS and drones. Finally, the process of land acquisition for industrial use could be significantly eased. Some states have implemented measures like land pooling, enhancing the state land bank for industrial use, and introducing legislative amendments to ease the acquisition of land by the private sector, subject to high-level clearance.[61] To ease conversion of land from agricultural to industrial use, Karnataka has implemented a simplified online, single-window system that requires fewer document submissions for land use conversion for industrial purposes. Approval is automatic after 30 days if no response has been received.[62]

3. **Create flexible labour markets with stronger social safety nets and more portable benefits to help the labour force become more mobile across occupations, sectors, and locations**

More vibrant manufacturing and a more vibrant economy in general will require more flexible labour markets. India continues to place labour restrictions on manufacturing companies. The limits encourage small firms to remain small, imposing high compliance costs as firms cross a low threshold of employment. India has about 250 national and state labour laws. Per-worker costs for firms increase by 35 percent after the tenth worker due to additional regulations.[63] Given the scale of the employment challenge over the next decade, the government could consider reviewing the various laws on the books and examine options to improve labour market flexibility. Barriers to labour flexibility could be removed by providing more freedom to manufacturing companies to shape the size, composition, and skills of the workforce, in line with evolving needs. For example, the requirement that firms obtain government permission for layoffs, retrenchments, and closures was introduced in 1976

58 World Health Organization Global Health Expenditure database; "Health expenditure and financing: Health expenditure indicators", Organisation for Economic Co-operation and Development (OECD) Health Statistics database.
59 See *A blueprint for addressing the global affordable housing challenge*, McKinsey Global Institute, October 2014.
60 Housing Development Administration of Turkey (TOKİ).
61 "Punjab cabinet gives nod to new land pooling policy for industrial sector", *Hindustan Times*, July 22, 2020; "UP amends revenue code, simplifies land acquisition process to expand land bank for industries", *Financial Express*, May 29, 2020; "Bill to acquire lands for industrial projects tabled", Hindu, March 2, 2020.
62 "Land conversion for industries to be simplified, expedited", Hindu, December 5, 2018.
63 Udit Misra and Nushaiba Iqbal, "Explained: What labour law changes by states mean", *Indian Express*, May 16, 2020; Amrit Amirapu and Michael Gechter, "Labor regulations and the cost of corruption: Evidence from the Indian firm size distribution", *Review of Economics and Statistics*, March 2020, Volume 102, Issue 1.

and amended to apply to all firms employing 100 or more workers from 1984.[64] Since 1984, India's manufacturing sector has grown tenfold in GVA in real terms, while the threshold has remained the same. Increasing this threshold at least in line with GVA growth would reflect the modern environment. Other options could be excluding downsizing undertaken due to technology interventions or export order seasonality, flexible domicile requirements, and streamlined compliance regulations. Enhanced labour flexibility and lower cost of labour compliance would need to be paired with measures to reinforce income security in case of unemployment. As India progresses to a more formalised labour market, unemployment protection may need to be part of a nationally defined social security system, along with support to get unemployed workers back into gainful work (including employment exchanges and matching services, vocational skills training, and retraining services). Domestic labour mobility between geographical locations in India matters, too. In the high-growth path to 2030, many newly created jobs will be in cities, potentially raising the urbanisation rate; we estimate that the incremental shift towards urban employment could total 8 percentage points. Accordingly, current disincentives to mobility, such as the fear of loss of entitlements, may need to be reduced, lowering barriers to migration. For example, subsidies could be linked to Aadhaar, and programmes similar to "one nation, one ration card" could be introduced. Finally, implementation of the affordable housing schemes for domestic migrant labour launched under the government's Pradhan Mantri Awas Yojana scheme can be expedited.

4. Reduce commercial and industrial (C&I) power tariffs by 20 to 25 percent through new business models in power distribution

To create the high-efficiency power distribution models we identified as being among India's frontier opportunities will likely require structural reforms to the power system. Power tariffs are 20 to 40 percent higher than in peer economies. Measured against 20 other economies, both emerging and developed, India is the only country with higher tariffs for industrial consumers than residential ones.[65] Moreover, as a result of low collection efficiency, theft, and poor billing practices, India's aggregate technical and commercial losses are high on average at about 19 percent, compared to 10 percent in best-in-class players.[66]

Various reform measures could help reduce C&I power tariffs by 20 to 25 percent. These include a shift to franchising models or privatisation of power distribution companies in the top 100 cities; the introduction of cost-reflective tariffs for C&I customers and direct benefit transfers for subsidies, which can bring down cross-subsidies; and a focus on smart meter penetration. While some of these reforms have been announced by the government as part of its COVID-19 package, they may need to be supported by specific policies and implemented at the state level. In addition, India could consider separating carriage and content operations, which would introduce competition and improve efficiency.

5. Monetise government-owned assets and increase efficiency through privatisation of more than 30 state-owned enterprises (SOEs)

A sharp uptick in productivity will be the common denominator of growth-boosting reforms. Achieving that will require changes to state-owned enterprises, whose productivity for the most part lags behind that of private-sector firms. Large-scale privatisation could give a needed boost to key sectors, more than doubling or tripling productivity, and potentially contribute between 0.2 and 0.4 percentage points annually on average to incremental GDP, as per our estimates.[67] For this to happen, privatisation would need to be accompanied by an appropriate institutional framework and effective competition. This has been found to be critical in bringing about improvements in company performance because it is associated with lower costs, lower prices, and higher operating efficiency.[68]

64 The Industrial Disputes (Amendment) Act, 1976; The Industrial Disputes (Amendment) Act, 1982.
65 Energy prices and taxes, International Energy Agency, 2016.
66 Annual reports, Ujjwal DISCOM Assurance Yojana (UDAY), Ministry of Power.
67 CMIE ProwessIQ.
68 Saul Estrin and Adeline Pelletier, "Privatization in developing countries: What are the lessons of recent experience?", *The World Bank Research Observer*, February 2018, Volume 33, Issue 1.

Privatisation proceeds would contribute to government coffers. In all, India has about 1,900 state-owned enterprises. We analysed companies for which data are available, some 577 of the 1,900 total. These had a total book value of about 20 lakh crore rupees (about $290 billion) in 2018.[69] We estimate that about 400 of these SOEs could be privatised. That figure excludes SOEs in strategic sectors, such as nuclear energy, and in sectors in which the assets of state-owned enterprises are worth more than their equity, such as power transmission companies, in which the government may want to maintain control through a majority stake and realise value via an asset monetisation programme. For the 400 or so SOEs that could be privatised, the government's share of the book value was $140 billion in 2018, and potential privatisation proceeds could be $540 billion between 2020 and 2030. Privatisation could be carried out through a combination of public equity issuance or shares sale on the stock market, divestiture to a strategic investor, or employee participation in equity, with the purpose of reducing the government stake below 50 percent. Large gains would be possible even if a relatively small number of privatisations were carried out: we estimate that just 2 percent of all SOEs could yield as much as 80 percent of all potential proceeds from privatisation. In addition, assets owned by the government, including roads, railways, ports, airports, power infrastructure (for example, transmission grids), and telecom towers could be monetised.

6. Improve the ease and reduce the cost of doing business at the state and city level

India has made significant progress in the World Bank rankings for ease of doing business. The country rose from 130th overall in 2016 to 63rd in 2020 and earned a citation as one of the ten economies that had made the most improvement across three or more dimensions. However, Indian companies large and small still face obstacles in doing business that crimp their effectiveness and limit their productivity. These range from payments for public procurement that are sometimes significantly delayed; limited efficiency in export-import processes and compliances that make exporting twice as long a process as in some other emerging economies; duplication of compliances from both central and state authorities across processes; tedious and slow processes to obtain construction permits; a lack of judicial capacity to enforce contracts; time-consuming compliance stipulations for tax payments that can require 250 hours or more; understaffed patent offices that mean the average time for granting patents is 64 months, almost triple the time in China, Europe, and the United States; and a low recovery rate for insolvencies.[70]

A number of the issues and obstacles that companies face could be resolved if the government adopted global best practices in relevant areas. For example, to accelerate the granting of patents would require more staff, but also more adept use of technology to improve process efficiency. To simplify and expedite tax payments, the existing electronic filing system could be extended, creating a one-stop shop for a range of taxes. China, for example, has included stamp duties and other taxes in its e-filing system. To enable prompt, on-time payments, South Korea has created an e-procurement system to ensure transparency in the contracting and payment processes. Some countries have set up a single portal for business licences by integrating company registries, tax administration, and social welfare departments. An "e-governance for business" mission at the state government level would be required to improve the ease of doing business at the local level across a large number of cities and towns within each state.

[69] *4th annual report on the Working and Administration of the Companies Act, 2013 year ending 31.3.2018*, Ministry of Corporate Affairs, December 2018; CMIE ProwessIQ.
[70] *Doing business 2016–2020*, World Bank.

Three pillars of financial reform spanning capital markets, credit intermediation, and public finances could help raise the $2.4 trillion of capital required in 2030

Assuming the requisite reforms spur growth and stimulate appetite for private investment, India will need to find new sources of finance. We estimate the total capital requirement would grow to about $2.4 trillion in 2030, compared with about $865 billion in fiscal year 2020, based on an average annual investment growth of about 9 percent.[71] Small and midsize companies will need access to more than $800 billion in capital in 2030. This would mean reversing the trend among these firms of credit contraction and weak equity raising. India will also need to finance government expenditure, budgeted in the range of 26 to 29 percent of GDP each year.[72] This could be done through a combination of government tax and nontax revenues, and maintaining the borrowing level.

To enable investment to return to about 37 percent of GDP, the level India has achieved in high-growth periods in the past, from 33 percent in fiscal year 2020, a triple focus is needed to unlock the supply of capital at a lower cost:

Channelling more household savings to capital markets. While foreign capital has a critical and growing role to play, the importance of domestic savings cannot be overemphasised, as our previous research on emerging economies has shown.[73] India can meet the bulk of its investment requirement through domestic sources of capital if it succeeds in raising the household savings rate to 19 percent of GDP from the current 17 percent and, within household savings, raising the flows to financial rather than physical assets to 11 percent of GDP in 2030, from 7 percent in 2018. That amounts to annual average growth of 12 percent in the pool of capital available for financial intermediation (rather than invested in land or gold). Net foreign capital inflows would also need to rise to about 3 percent of GDP from 1.8 percent—that is, quadruple from $50 billion in fiscal year 2018 to $200 billion in 2030. Of this, net foreign direct investment would need to increase to $120 billion (1.8 percent of GDP) from about $30 billion (1.1 percent), in line with peers like China, South Korea, Malaysia, and Thailand.[74]

Beyond the sums required, India would need to ensure that a higher share of household financial savings flows to productive and high-growth firms through a more efficient and deeper capital market. The overall depth of financial markets in India, as measured by outstanding equity, corporate bonds, and government bonds and cumulative five-year issuances of securitised products, is about 140 percent of GDP compared to an average of about 240 percent among peers.[75] Equity and debt instruments both lag; mutual fund assets under management are equivalent to 12 percent of GDP, less than half the level of peer economies at 26 percent.[76] In addition, the turnover ratio of the Indian stock market has fallen from 143 percent in 2008 to 58 percent in 2018 and further to 29 percent in 2019, compared with 224 percent for China, 130 percent for South Korea and 64 percent for Thailand.[77] The challenge over the next decade will thus be to create conditions that encourage household investment in shares and debentures, insurance, pensions, and other instruments that give greater depth to India's capital market.

71 National Accounts Statistics, Ministry of Statistics and Programme Implementation, 2020.
72 Union government budget documents; *State finances: A study of budgets of 2019–20*, Reserve Bank of India, September 2019.
73 See *Outperformers: High-growth emerging economies and the companies that propel them*, McKinsey Global Institute, September 2018.
74 Balance of payments, Reserve Bank of India, June 2018; World Bank national accounts data; OECD National Accounts data; National Accounts Statistics, Ministry of Statistics and Programme Implementation, 2020; International Monetary Fund Balance of Payments database.
75 Peers include China, Malaysia, Singapore, South Korea, and Thailand; World Bank; Debt securities statistics, Bank for International Settlements, June 2020; Securities and Exchange Board of India; Korea Treasury Bond, Ministry of Economy and Finance; Dealogic.
76 World Bank; Association of Mutual Funds in India.
77 *World Federation of Exchanges database,* World Bank.

A number of reform measures can help deepen the capital markets. First, existing products and channels could extend their reach through coherent incentives and a level playing field across products. For example, taxes on capital market instruments could be reduced and rationalised. Singapore has zero percent long-term capital-gains taxes, while India taxes capital gains on unlisted corporates at 20 percent and listed ones at 10 percent.

Dividends are taxed at the marginal income tax rate, for example, at different tranches of 31 or 43 percent, including surcharges, for segments of the population with annual income more than 15 lakh rupees. That compares with dividend withholding tax rates of 10 percent in Thailand and zero percent in Malaysia. Across capital market instruments, varying tax rates could be evened out: alternative investment funds are subject to 20 percent long-term capital gains tax for domestic residents, for example, compared to 10 percent for foreign investors.[78] Other measures could be taken to make equity trading more attractive, such as lower transaction costs and simplifying compliance requirements for trading in stock exchanges. Enabling more risk capital investment vehicles like private equity is also critical; India has about 100 private equity firms, while the United States with 7.5 times the GDP has 33 times the number, at 3,300.[79]

Second, existing product-market barriers such as distribution margins and investment restrictions on a range of instruments will also need to be reduced. For example, investment in alternative investment funds is currently restricted for institutional investors like banks, insurance companies, and pension funds. Third, more financial instruments and channels could be introduced. For example, a government-backed mortgage securitisation organisation like Fannie Mae in the United States could be set up. Beyond domestic capital, foreign sources of capital can be tapped to a greater extent. If India were to be incorporated into the global bond index, and a hassle-free process designed, this could increase flows of foreign investment.

Apart from these three broad measures, economies have leveraged development finance institutions (DFIs) to deliver strategic, long-term finance to target sectors and priorities, including exports and infrastructure, in many emerging economies. Although this can result in market distortions and rent capture, some policy experts say DFIs are needed now more than ever, given their countercyclical role and their ability to bridge infrastructure financing gaps and address failure in the allocation of risk capital by capital markets.[80] Certain outperforming economies have built-in measures to limit this potential distortion; for example, South Korea's Development Bank had a strict loan ceiling on project costs to assure co-investment, risk sharing, and aligned incentives.[81]

Reducing cost of credit intermediation. The average commercial borrower in India has seen continued high real interest rates, which are more than five percentage points higher than in other outperforming emerging economies (Exhibit E9). India can reduce its cost of financing by about 3.5 percentage points by taking steps to reduce the cost of credit intermediation in the banking system. The government borrowing programme that relies heavily on bank deposits reduces the sources of capital available to the private corporate sector and consequently increases the cost of capital for commercial borrowers. We estimate that "crowding out" by government borrowing keeps the cost of commercial credit about 1.2 percentage points higher in India than in similar emerging economies.

78 *Capital gains tax*, Mazars, Singapore; *Taxation on equities investment*, Stock Exchange of Thailand; *Simple tax guide for Americans in Malaysia*, Tax for Expats; *Union budget 2019-20*, Ministry of Finance; "Real estate investment trust (REITs) and infrastructure investment trust (InvITs) in India", *Financial Foresights*, FICCI, Q3 FY 14–15, Volume 5, Issue 2; T E Narasimhan, "IVCA seeks tax parity, approval for AIFs to invest in NBFCs ahead of budget", *Business Standard*, January 25, 2020.

79 *India private equity firms*, Crunchbase; *United States private equity firms*, Crunchbase.

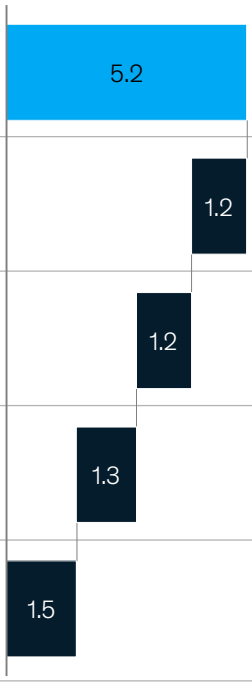
80 Jiajun Xu, Xiaomeng Ren, and Xinyue Wu, "Mapping development finance institutions worldwide: Definitions, rationales, and varieties", NSE Development Financing Research report number 1, Peking University, Institute of Structural Economics, May 2019.

81 For details, see *Outperformers: High-growth emerging economies and the companies that propel them*, McKinsey Global Institute, September 2018.

Exhibit E9

The average financing cost to commercial borrowers in India is structurally higher by an estimated 5.2 percentage points than in comparable economies.

Drivers of difference in the cost of commercial loans in India vs other emerging economies Percentage Points	Average nominal rates, 2019[1] % India	Other emerging economies[2]	Potential levers to reduce cost of commercial loans
Fund and fee-based charges paid by borrowers[3]	10.7	5.5	
Crowding-out effect of government borrowing[4]	1.2		Streamlining public finances, market-linking small-savings rates, rationalising SLR[5] requirement, focusing PSL[6] obligations on key priorities
Credit risk provisions due to nonperforming loans	1.8	0.6	Special Asset Bank or AMC[7], strengthening Insolvency and Bankruptcy Code processes to reduce NPAs[8]
Operating expenses	2.7	1.4	Building operational efficiency through privatisation, digitisation, and automation, among others
Residual effects	5.0	3.5	



[1] Nominal rates considered; estimates based on a sample of commercial banks in each country.
[2] Simple average of China, South Korea, and Thailand.
[3] Assumes borrowers pay all fund-based and fee-based (non-fund-based) charges.
[4] Estimated based on yield curve for government securities in India relative to those in sample countries.
[5] Statutory Liquidity Ratio.
[6] Priority Sector Lending.
[7] Asset Management Company; Special assets bank or AMC can address the NPA overhang issue, but the fundamental project and entity risk would need to be addressed by reforms, for example, improving ease of doing business, improving cost competitiveness, among others.
[8] Nonperforming asset.

Source: World Bank; International Monetary Fund; Reserve Bank of India; Bloomberg; McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

An important step to address the "crowding out" would be to streamline public finances, as described in the section below. This would enable a reduction in the statutory liquidity ratio, as India did in the 1990s, to free up more lending to nongovernment segments and reduce its cost. Streamlining public finances would also allow market-linked interest rates on government small savings schemes, enabling higher savings (at lower interest rates) to flow into bank deposits, for commercial enterprises to borrow at lower cost. India's commercial borrowers also pay a higher credit risk premium of about 1.2 percentage points; and one factor driving this is the rising level of non-performing assets (NPA) in banks, which almost tripled over the last decade. A solution could be to improve the health of the financial sector, by establishing a "special assets bank", backed by private-sector funding, to help tackle resolution of NPAs. This could be an independent legal entity designed as an off-balance-sheet vehicle to enable maximum transfer of risk. It could aggressively price recovery of specific NPAs. Among several international precedents for such action is Sweden's establishment of a "bad bank" that helped the country push through banking reforms after a financial crisis in the early 1990s.[82] While a special assets bank could

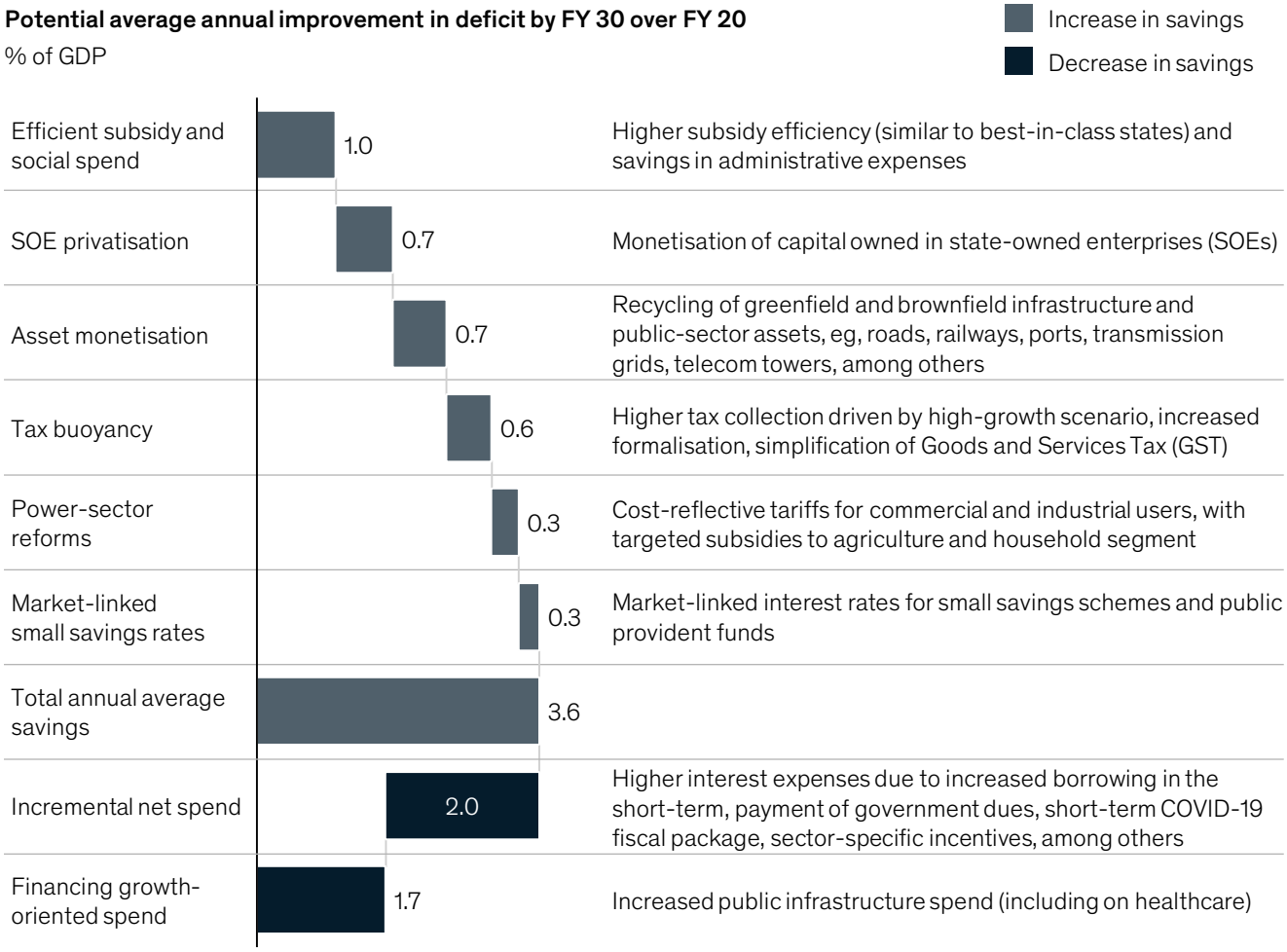
[82] Dominic Barton, Roberto Newell, and Gregory Wilson, *Dangerous Markets: Managing in Financial Crises*, Hoboken, NJ: John Wiley and Sons, 2002.

address issues due to the NPA overhang, fundamental project or entity risk would need to be addressed through reforms—for example, improving ease of doing business and cost competitiveness, as described in the earlier section. Finally, Indian banks' operating expenses are 1.3 percentage points higher than peers'. A privatisation agenda in banking could help to reap the efficiencies of consolidation and usher in more market-based incentives for cost optimisation.

Streamlining public finances to allocate capital more efficiently. In the short term, India's public finances will take a toll from COVID-related expenses, which increase government liabilities and interest expenses even as GDP contracts. The government has little choice in the short term, given the pandemic's deleterious effect on the economy; it is the only player able to mobilise demand in the Indian economy. Yet, viewed over the decade to 2030, India has several opportunities to streamline its public finances and channel more resources to productive infrastructure. We estimate that India has the potential to save about 3.6 percent of GDP on an annual basis, on average over fiscal years 2021–30. Net of the anticipated higher spending needs of about 2.0 of GDP, it would imply that India's government has the potential to allocate about 1.7 percent of GDP on average each year, or approximately 5.7 trillion rupees (about $80 billion), to finance additional growth-oriented spending (Exhibit E10).

Exhibit E10

With reform, India could release up to 3.6 percent of GDP on average per year, to finance additional spending, including on infrastructure.



Source: Ministry of Statistics and Programme Implementation; Reserve Bank of India; Annual reports of SOEs; Union Budget documents; Ministry of Corporate Affairs database; CMIE ProwessIQ; McKinsey Infrastructure Stock & Spend Analyzer; *Performance Report of State Power Utilities 2018–19*, Power Finance Corporation Limited; *Seventh Annual Integrated Ratings of State DISCOMs,* Power Finance Corporation Limited; *Annual Survey of Industries 2017–18 and 2016–17,* Ministry of Statistics and Programme Implementation; World Bank; Income Tax Return Statistics Assessment Year 2018–19; *India's path from poverty to empowerment,* McKinsey Global Institute, 2014; McKinsey Global Institute analysis

These savings could come from a range of measures quantified in the exhibit. First, 1 percent of GDP, on average per year over the next decade could come from more efficient subsidy and social spending—direct benefit transfers of all subsidies could improve subsidy efficiency from 60 to 65 percent currently to 75 percent, in line with some best-in-class states.[83] Second, 0.7 percent of GDP on average per year could come from privatising the top 2 percent of all state-owned enterprises. Third, 0.7 percent of GDP on average per year could come from monetising assets including roads, railways, ports, airports, power infrastructure (for example, transmission grids), and telecom towers. Fourth, 0.6 percent of GDP annually in the same period could come from greater tax buoyancy, particularly driven by faster growth; the high-growth path can increase corporate profitability, employment, wages, and consumption, and in turn drive up tax revenue. And finally, 0.6 percent of GDP annually could come from power-sector reforms, as noted earlier, and rationalising interest rates on government borrowing from small savings schemes and pensions funds—a measure already announced.

Central and state governments will need to work together and in concert with business leaders to achieve India's high-growth imperative

About half of the reforms identified in this report can be enacted through a policy or law, relatively quickly, though even these will require the government to work with deep domain experts, think tanks, academia, industry bodies and the private sector, among others to draft detailed policies and laws, that could remain stable for a sustained period of time. Other reforms will require the government to act on implementation of initiatives and projects.

While the central government's pro-growth vision and agenda are essential, state governments have a critical role to play. They will need to implement roughly 60 percent of the reforms (Exhibit E11). Business leaders also have a major responsibility for realising the high-growth agenda. They will need to collaborate with government to ensure a sound near-term on-the-ground recovery from the COVID-19 crisis and, at the same time, commit to the long-term growth that is needed to create 90 million jobs over the next decade.

The starting point will be a clear and sharp vision, arrived at by the central government in alignment with the business community. Action must follow vision, with reform measures put in place alongside incentives and structures across all levels of government to ensure that they are implemented.

For a reform agenda to endure across multiple years, an institutional body could steward the process under the chairmanship of the Prime Minister, with the right level of empowerment, including for resource allocation, and technical- and domain-specific expertise. This role could be played by an existing body chaired by the Prime Minister, like NITI Aayog and the government-instituted Development Monitoring and Evaluation Office (DMEO) within it, or by a High-Level Group within the Prime Minister's Office. Keeping the urgency of reforms in mind, a set of committees across manufacturing, financial-system reform, public finance, and centre-state coordination for concurrent topics and cross-cutting reform could be set up to frame policies in a time-bound manner. These would each be headed by an eminent thought leader with relevant expertise, with experts from the business sector, academia, think tanks, and industry bodies invited to serve. These committees could create strategic visions with executable plans, milestones, and outcomes clearly outlined, within a three-to-six-month time frame.

[83] *From poverty to empowerment: India's imperative for jobs, growth, and effective basic services*, McKinsey Global Institute, February 2014.

Exhibit E11

About 60 percent of the reform agenda requires action at the state level, and more than half can be implemented through a policy or law.

Real sector reforms - government as policy maker | Real sector reforms – government as implementer | Financial system reforms – government/regulator as policy maker

Central-government-led reforms 40%	Central-government-supported, state-led reforms 40%	State-led reforms 20%
Sector-specific pro-growth policies		
Manufacturing		
• Stable and declining tariff regimes, removal of inverted duty structures • Time-bound and conditional incentives to electronics, automotive/EVs[1], chemicals and pharmaceuticals		• Port-proximate clusters: expedite Sagarmala
Real estate		
• Increase in tax incentives for home ownership	• Large-scale affordable housing projects; rationalisation of stamp duty/registration fee • Regulatory amendments to enable greater supply in rental housing market • Introduction of single-window clearance for all large affordable housing projects	
Agriculture and food processing		
• Reform of minimum support prices	• Implementation of APMC[2] reforms announced • Implementation of ECA[3] reforms announced • Tax reforms and incentives for processed food • Extension of Mega Food Park to large integrated food processing facilities and viability gap funding	
Retail trade		
• Level playing field, eg, model/product agnostic FDI policy		
Healthcare	• Enabling new healthcare human resources models • Simplification of processes for medical tourists	• Investment in primary healthcare system: balance payer and provider roles
Unlocking supply in land markets		
• Mapping and releasing underutilised public land for development		• Mapping and releasing underutilised public land for development • Increasing FSI[4] in city master plans • Expediting land records digitisation • Easing land acquisition by land pooling, etc
Flexible labour markets		
	• Reduction in labour compliances, flexible policies • Removal of migration barriers	
Efficient power distribution		
	• Model DISCOMs in top 100 cities, franchised and privatized models; cost-reflective tariffs • Increase in renewables' share in electricity mix	
Privatization and asset sales		
• Increase in SOE productivity through privatisation and asset sales	• Privatisation of state DISCOMs	
Improving ease and reducing cost of doing business (EODB and CODB)		
• E-governance, direct benefit transfer		• E-governance, direct benefit transfer
Financial system reforms		
• Deepen capital markets[5] • Reduce cost of credit intermediation[5] • Streamline public finances[5]	• Streamline public finances[5]	

[1] Electric vehicles.
[2] Agricultural Produce Marketing Committee.
[3] Essential Commodities Act.
[4] Floor-space-index.
[5] Reforms include incentives and levelling the playing field, rationalising product market barriers, enabling new instruments and channels, rationalising reserve, priority sector requirements, establishing special assets bank, increasing subsidy efficiency, privatisation, asset sales, power sector reforms, market-linking small savings.

Source: McKinsey Global Institute analysis

In the implementation phase of reforms, the stewarding body under the prime minister could monitor progress and solve implementation problems and bottlenecks. This group would meet monthly to review outcomes and deliverables using data and dashboards, steer national-state coordination and public-private coordination, and resolve implementation issues, similar to the PRAGATI model used for the Prime Minister's review of critical infrastructure projects.

The policies framed at the national level would have to be driven at the state level. State governments will also need to set their visions and blueprints to address key pro-growth priorities. Each Chief Minister would appoint a similar state-level committee to develop a vision for the state. The vision and blueprint would need to include a basic set of reforms that each state would have in common, such as in the power sector or ease of doing business. Furthermore, the vision would make choices around which frontier business opportunities would be growth priorities. The choices would vary by state depending on local endowments, such as agricultural resources, educated professionals, and port-proximate land. It would also depend on the distance of the state from the productivity frontier and the urgency of bridging the gap, for example, in areas like power-sector distribution losses, logistics cost, and the quality of urban infrastructure.

As an illustrative example, in Maharashtra, seven to eight districts could potentially champion key frontier business opportunities. The Mumbai–Thane–Raigad cluster could become a global manufacturing hub with proximate clusters, particularly in electronics, chemicals, textiles, and pharmaceuticals. Pune could capitalize on its expertise in IT services to become a global IT and digital services hub as well as an automotive manufacturing hub. Nagpur could champion world-class efficient logistics models and manufacturing, particularly in electronics and aeronautics; Solapur can become a manufacturing hub, particularly in textiles and apparel; Ahmednagar, Jalgaon, and Ratnagiri can champion high-value agricultural ecosystems; Nashik can champion high-value tourist circuits and hubs, and Sindhudurg can also become a new tourist hub.

States could then create powerful demonstration effects by taking a few of these ideas and making them work, at scale, in select areas. A CEO-led special purpose vehicle (SPV) could be set up by the state government with the mandate to make these projects successful. For instance, a state could use an SPV to select a port-proximate cluster to develop and invite large companies and their MSME supply chains to set up factories and offices there, providing land, plug-and-play infrastructure, common utilities like effluent treatment plants, skill development centres, and low-cost input factors like power tariffs. Such clusters in other economies have contributed significantly towards export manufacturing. For example, the Bangladesh Export Processing Zones Authority has eight Export Processing Zones (including the Chittagong export processing zone), which generated $7.2 billion of exports in 2017–18, primarily in apparel, equivalent to 20 percent of Bangladesh's national exports.[84] Similar effects could be created in agricultural processing, power DISCOM privatisation, and affordable housing.

Finally, India's business leaders can help restore the country to a high-growth path. That will require focus on three key themes. First, firms would need to raise aspirations and commit to productivity growth through a set of frontier business ideas, choosing from amongst the ones we lay out in this report and even beyond this set. The choice of which opportunities to commit to would vary for each company, but making bold investments in a few areas will be critical in order to be a winner and shape India's high-productivity economy in the coming decade.

[84] Annual report 2017–18, Bangladesh Export Processing Zones Authority.

Second, businesses need to develop a long-term value creation mindset coupled with a strong performance-oriented culture; both of these create stakeholder value in the long-term. This implies adopting a forward-looking approach to investment, building an organisational culture that focuses on long-term value creation, and articulating a shared vision and purpose with accountability to all stakeholders. The long-term mindset needs to go hand-in-hand with outcome-based performance management and a systematic approach to managing the performance of teams and individuals.

Third, firms will need a set of winning capabilities if they are to emerge as large, high-growth, globally competitive businesses:

— **Customer-centric innovation.** Firms that have been able to create winning propositions have seen high revenue and profit growth. Both large and small firms across sectors need to build capabilities that enable razor-sharp understanding and focus on customer needs along with innovation, with localisation and tailoring for India, along the value chain of product design, pricing, distribution and the back-end.

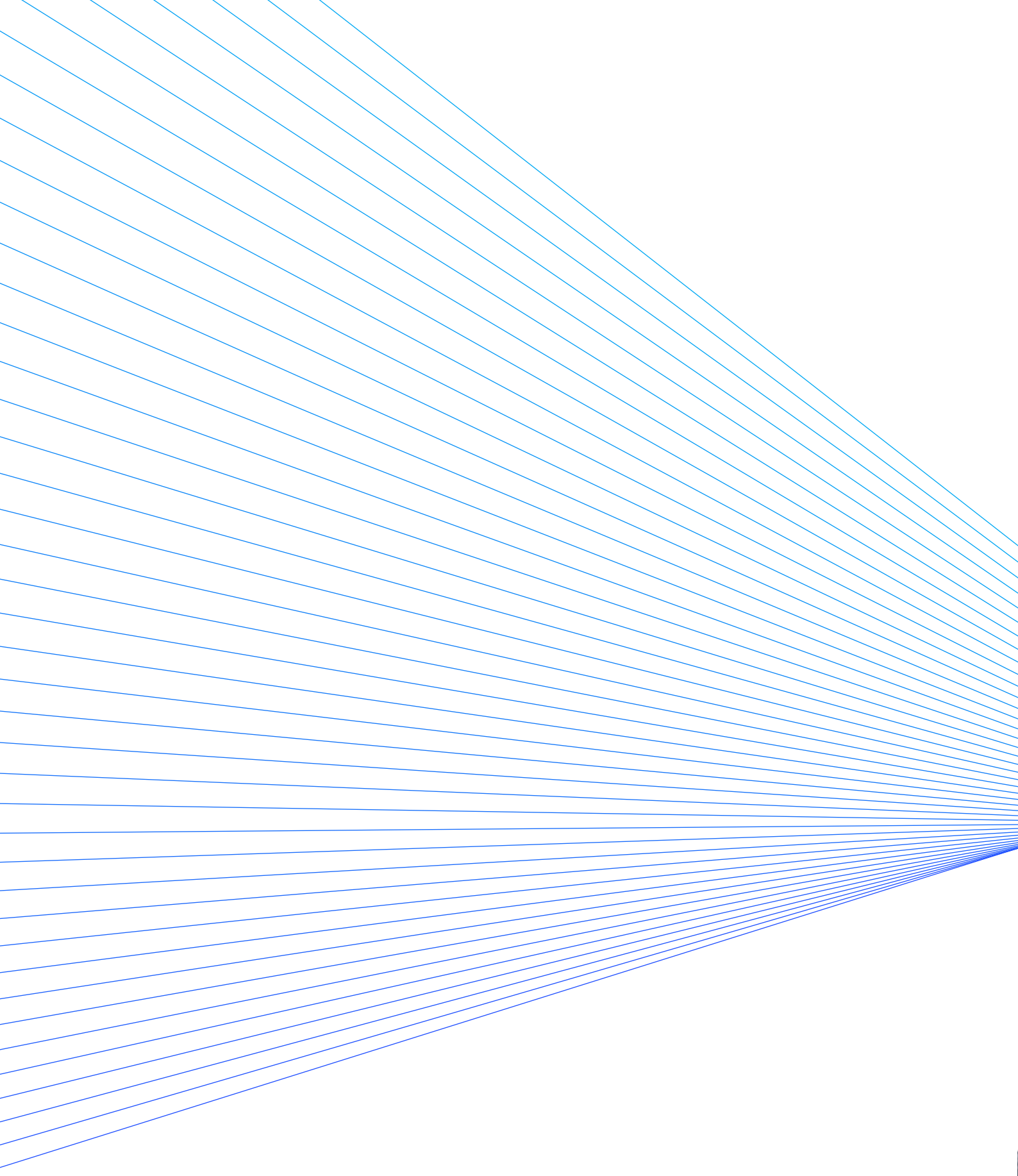
— **Operational excellence and scalable platforms.** Firms across sectors will need to ramp up digital and data capabilities to create lean, scalable operating platforms. Such measures could go from installing digital architecture for back-offices, digitising supply chains, and moving customer sales and service interfaces online. Automation and the full gamut of Industry 4.0 techniques will need to be at the forefront of this wave, including assembly-line automation and IOT-enabled data analytics, amongst others.

— **Ability to be ahead of the curve and win in discontinuities.** Companies that are pioneers in their fields and shape new ecosystems tend to capture disproportionate value. Critical capabilities for firms of the future will be reshaping established business practices, fostering creativity and nimbleness, and making bold capital allocation decisions.

— **Well-executed mergers, acquisitions, and partnerships.** With India's fragmented corporate landscape, particularly in sectors such as retail, logistics, and construction, consolidation could be key to regaining a competitive advantage. Firms will need to build their mergers and acquisition and partnership muscle and learn how to capture value by consolidating disaggregated and distributed players.

— **Finally, strong corporate governance and trust-based brands that attract capital, customers, and employees.** Clear reporting, strong accountability, transparency, a focus on ethical values, and brands built based on trust and purpose will become even more important in the decade ahead. The COVID-19 pandemic is just the latest in a line of events that have focused public attention on how companies behave. Exemplary performance together with exemplary behaviour will provide a powerful base for firms in India to compete and thrive and to attract capital, customers, and employees.

India is at a turning point. Faced with the challenge of creating 90 million jobs over the next decade, the country will need to implement significant reforms across the economy to ensure that high-growth conditions are in place to generate those jobs, or risk a decade of economic stagnation and declining quality of life. At a time when the global economy has taken severe knocks from the coronavirus pandemic, restoring 8.0 to 8.5 percent GDP growth is an ambitious goal. Yet India has shown time and again over the past three decades that it can confound even the loudest sceptics and put in place the key changes that enable its economy to outperform. Over the next decade, it needs to do so once again.



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